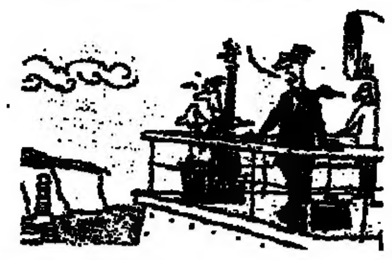
FINANCIAL TIMES

World Business Newspaper — MONDAY JUNE 24 1996

Start the week with...



Cross channel
Ferries court the business traveller
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Media futures
A phone for all reasons
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Intergraph reinvents itself
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World leaders pay tribute after death of Papandreou

Former Greek prime minister Andreas Papandreou (below), who founded the Panhellenic Socialist Movement in 1974 and led it to power from 1981 to 1986 and again in 1993, has died after a heart attack. Papandreou, 77, had resigned as prime minister in January due to poor health. World leaders paid tribute to his fight for an independent Greece. British prime minister John Major praised him as "a charismatic leader who contributed much to the development of modern Greece". Page 16; Obituary, Page 2

US fears on British defence contracts: US contractors fear they are being shut out of competitions after a UK government decision to favour British contractors when it awards more than £12bn ($18.4bn) of defence equipment work. Page 6

Calls for Eurotunnel resignations: Several directors of Eurotunnel, the troubled Anglo-French operator of the Channel tunnel rail link, may face shareholders' calls for their resignations at the annual general meeting on Thursday. Page 17

Lira's ERM return unlikely before autumn: The re-entry of the lira into the European exchange rate mechanism is not likely before autumn, after Italian officials at the EU summit in Florence declined to offer any date for preparations on the currency's return. Page 2; UK, Germany block financing for transport networks, Page 16

US warned on Cuba law: European Union leaders have threatened to retaliate to protect foreign investors in Cuba targeted by US anti-Castro legislation. Page 2

Japan to press G7 on aid: Japan will unveil plans at this week's Group of Seven summit to improve international development aid. Page 3

Russian Liberals refuse to back Yeltsin: Russia's biggest liberal party, Grigory Yavlinsky's Yabloko movement, refused to endorse President Boris Yeltsin's re-election bid. Page 2

'Low risk' of HK capital flight: Crédit Lyonnais Securities (Asia), the French banking group's regional arm, said most Hong Kong residents had largely completed financial preparations for the territory's return to China next year, reducing the risk of capital flight. Page 3

Drugs sales growth slows: World drugs sales growth slowed to 5 per cent in March, from 7 per cent in the previous two months. Sales of prescription drugs in the world's 10 biggest markets in the first quarter of 1996 were worth $35.5bn. Page 4

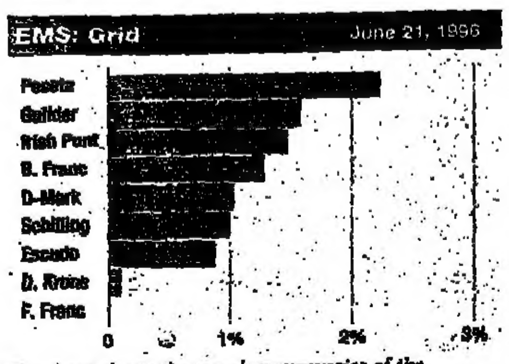
Awami takes power in Bangladesh: Awami League leader Sheikh Hasina was sworn in as Bangladesh's prime minister – ending 21 years of political opposition for the party forged by her father, Sheikh Mujibur Rahman. Page 3

England and Germany in semi-final clash: England will play Germany in the Euro 96 semi-final at Wembley on Wednesday after the Germans beat Croatia 2-1 in Manchester. France will meet the Czech Republic who beat Portugal 1-0 in Birmingham. Observer, Page 15

India in command at Lord's: England ended the third day's play in the second Test against India at Lord's on 113-2 to add to their first innings total of 344. India scored 429 in their first innings. Field day for litigation, Page 10

European Monetary System: The Irish punt rose three places in the EMS grid last week against a backdrop of quiet market conditions. The order was otherwise unchanged, with the spread between strongest and weakest currencies widening slightly, although remaining very low. Currencies, Page 28

EMS: Grid — June 21, 1996



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a 2.25 per cent band.

Israel rejects 'land-for-peace' principles without security guarantees

Arabs call for new peace talks

By James Whittington in Cairo

Arab leaders yesterday called for a resumption of peace talks with Israel, but warned they would reconsider their policy of rapprochement if the new rightwing government in Tel Aviv deviates from "land-for-peace" principles.

The summit and its resulting communiqué were yesterday being touted by Arab diplomats as an opportunity for Mr Benjamin Netanyahu, Israel's new prime minister, to take into account the views of his Arab neighbours before embarking on policies which will affect the peace process.

But Mr Netanyahu said the Arab summit statement was "one-sided" and that "demands which harm security do not go together with talks for peace".

"For the process to continue successfully and fruitfully, such statements must be stopped. That is the most basic demand for talks on co-existence and peace," Mr Netanyahu said in a statement.

Ministers in Israel's new government clashed yesterday over the need to compromise with Syria in negotiations about the Golan Heights, writes Yaroslav Trofimov in Jerusalem. The controversy began on Friday night, when Mr David Levy, the foreign minister, suggested that Israel might meet Syria "half-way" on the Golan problem.

However, other Israeli officials yesterday disavowed Mr Levy's conciliatory overture. Their reaction seemed to indicate the start of a serious government split over the course of the peace process.
Report, Page 4

At the end of the first full-scale Arab summit in six years, 20 Arab governments – with the exclusion of Iraq – reaffirmed their commitment to peace as "a strategic decision".

But the final statement put together after three days of intense negotiations in Cairo made clear that any further development in Arab ties with Israel was conditional on advances in negotiations based on a land-for-peace formula.

"If Israel deviates from the principles of the peace process or retreats from its commitments ... [then the resulting] resumption of tension in the region will compel all the Arab states to reconsider steps taken in the context of the peace process vis-a-vis Israel," the statement said.

"The Israeli government will bear sole and full responsibility for this situation."

No mention was made of exactly what the Arabs would do if Israel does backtrack on its commitment to peace, but the summit appeared to be placing its faith in the ability of the international community to put pressure on Israel to compromise.

The conference was attended by 14 Arab leaders and senior representatives of six other Arab states. It was called to formulate a common Arab position following the shock election of the Likud government in Israel last month.

The leaders also discussed a military co-operation agreement between Turkey and Israel in February which has caused much consternation in many Arab states, particularly Syria and Egypt, which view it as a threat to region's military balance.

In their communiqué, the Arab leaders called on Turkey "to reconsider this agreement, in a way to prevent any negative bearing on the security of the Arab states".

Iran was also singled out for criticism for its "interference in the internal affairs of Bahrain" and its occupation of three islands in the Persian Gulf which, the statement said, should be returned to the sovereignty of the United Arab Emirates.

Another shared aim of the summit was the need to rebuild Arab unity, shattered after Iraq invaded Kuwait in 1990. After 50 years of Arab League rhetoric on the need for a common market, the 20 nations relaunched the project of economic integration and the need to build effective common institutions.

Arabs are looking at the project with renewed anxiety because of fears of Israeli economic, as well as military, hegemony.

Summit demands land, Page 4

Beijing calls off German visit as rift over Tibet grows

By Michael Lindemann in Bonn

A smouldering row between China and Germany over German support for Tibetan human rights has turned into a serious diplomatic dispute as Beijing yesterday called off a planned official visit next month by Germany's foreign minister Mr Klaus Kinkel.

The Chinese foreign ministry said a motion passed last week in the German parliament citing China's "violent suppression of Tibet" was a "gross interference in China's internal affairs".

Germany was to blame for any damage to bilateral ties, the ministry added.

The row began some weeks ago when the German government proposed providing a subsidy for a large conference on Tibet to be held in Bonn.

Under pressure from the Chinese, that funding was withdrawn, but the conference went ahead and was widely supported by German politicians from all parties, including those in the governing coalition.

In an initial expression of its anger, the Chinese government forced the closure of the Beijing office of the Friedrich Naumann Foundation, a human rights organisation which co-sponsored the conference with the Tibetan government in exile led by the Dalai Lama.

Offended German politicians then arranged for a motion to be introduced in the Bundestag, the lower parliamentary chamber, criticising China's record on human rights and its repression of Tibet.

"In these circumstances, the Chinese side feels the atmosphere is clearly not appropriate for a planned visit to China by foreign minister Kinkel on July 11-14," the Chinese foreign ministry said.

It remained unclear how booming trade links would be affected by the sudden souring in Sino-German relations. Germany is China's fourth biggest trading partner, after Japan, Hong Kong and the US, and trade has increased significantly over the last two years to about DM25bn ($16bn) following a number of high-level state visits on both sides.

On his most recent, fourth visit last November, Chancellor Helmut Kohl made a considerable effort to improve relations by inspecting a Chinese infantry division, the first such gesture by a western head of government since the Tiananmen Square killings in 1989.

German officials indicated that

Continued on Page 16

Japan and S Korea seek harmony

Japanese prime minister Ryutaro Hashimoto (left) and South Korean president Kim Young-sam display signed footballs during the 'soccer summit' on Cheju Island, South Korea. Their meeting follows the recent decision that the two nations would co-host the World Cup in 2002. The two leaders vowed to begin a new era of co-operation in relations. Report, Page 16 Picture: Reuter

Microsoft stirs controversy with Internet magazine

By Louise Kehoe in San Francisco

Slate, an online magazine or "webzine" launched today by Microsoft, is already stirring controversy because of its powerful owner's increasing prominence on the Internet.

The magazine is one of several publishing ventures that Microsoft, the world's largest software company, is undertaking as part of its new focus on Internet software and services.

Mr Michael Kinsley, its editor, said it would bring "serious conventional journalism for people who are not cyberfreaks" to the Internet.

The first issue tackles head-on the question of whether Slate is merely a mouthpiece for Microsoft and Bill Gates, its billionaire chairman and chief executive. "Is Microsoft Evil?", asks the headline on the cover.

The discussion that follows is, however, muted in its criticism of the company and includes a statement and riposte from a senior Microsoft executive.

Additional comments "purged of cheap shots and sound bites" will be added on a daily basis, according to Slate's publicists.

Mr Kinsley, a former editor of New Republic magazine, acknowledges that he is a newcomer to the high-technology arena, but professes to be annoyed by questions about whether Microsoft is seeking to expand its domination of the computer screen by publishing Slate.

"Microsoft has conflicts of interest and ulterior motives but they are not any worse than those of Pearson [publisher of the Financial Times], or Rupert Murdoch or Time Warner," he claims.

"In an era of media conglomerates, how can it be a bad thing for a new company to begin competing in the media business?"

Mr Kinsley aroused controversy when he joined Microsoft earlier this year with his comment that most of what was published on the Internet was "crap". He is now at pains to explain that he had not meant to denigrate other World Wide Web publications, but was referring to the thousands of pages of corporate advertisements to be found on the Web. "Most of what is published on paper is crap," he adds.

Nonetheless, his comment has drawn barbed responses from Internet enthusiasts and editors of other webzines.

"Slate will continue Microsoft's tried and true corporate strategy: first let the other guys do the real innovation, then swoop down on the market and cop all their moves," Feed Magazine, a webzine that covers arts, politics, technology and the media, claimed in a recent editorial.

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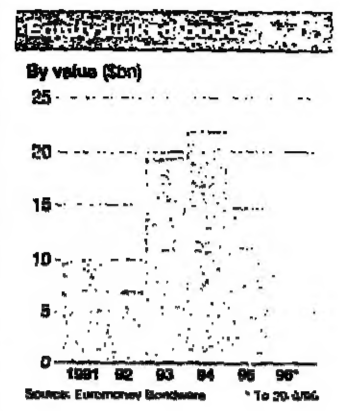
Equity-linked bonds



Markets uncertainty leads to convertible bonds rush

By Antonia Sharpe in London

New issue volume in international convertible-bond markets has already passed last year's total of £15bn ($23bn) and is on course to exceed the 1994 record of £22.2bn as investors hedge their bets about the direction of bond and stock markets.

Convertible bonds are a hybrid of bond and equity. Like a bond they provide the holder with an income, although this is lower than on a conventional bond because the holder also has the right to buy the issuer's shares at a pre-determined price during the life of the bond.

Traditionally bought by dedicated convertible-bond funds, these instruments now appeal to a much wider range of investors.

Fixed-income investors are willing to give up some yield in order to boost their performance through exposure to the stock market while equity investors view the coupon on the bond as downside protection against a possible fall in the stock market.

The current backdrop of low bond yields, high share prices, and the supply-demand imbalance means that companies and financial institutions can raise equity-linked financing on attractive terms.

Companies to tap this market so far this year include Daimler-Benz, Germany's biggest industrial company, Sumitomo Bank of Japan, BAA, the UK airports

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Bonds, Page 23

Albania	LEK 220	Germany	DM4.00	Lithuania	Lts 15.00	Qatar	QR13.00
Austria	Sch37	Greece	Dr400	Lux	LFr75	S.Arabia	SR12
Bahrain	Din1.250	Hong Kong	HK$20	Malta	Lm0.65	Singapore	S$4.30
Belgium	BFr75	Hungary	Ft230	Morocco	MDh18	Slovak Rp	Sk65
Cyprus	C£1.20	Iceland	IKr230	Neth	Fl 4.75	S. Africa	R12.00
Czech Rp	Kč60	India	Rs75	Nigeria	Naira60	Spain	Pta260
Denmark	DKr18	Israel	Shk7.50	Norway	NKr20.00	Sweden	SKr20
Egypt	E£5.00	Italy	L3200	Oman	OR1.50	Switz	SFr3.70
Estonia	EKr 22	Japan	Y500	Pakistan	Rs40	Syria	S£65.00
Finland	FM15.50	Jordan	JD1.50	Poland	Zl 5.50	Tunisia	Din1.750
France	FFr11.50	Kuwait	Fils.650	Portugal (m'land)	Es210	Turkey	L80,000
		Lebanon	L£3,000			UAE	Dh12.00

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EU summit warns US on sanctions

By Lionel Barber and Robert Graham in Florence

EU leaders have sent a tough warning to the US threatening retaliation to protect foreign investors in Cuba targeted by anti-Castro legislation.

A communiqué issued at the end of the European summit in Florence at the weekend voiced "deep concern" over the extra-territorial impact of the Helms-Burton bill. The same message was directed at similar pending legislation covering Iran and Libya.

The Helms-Burton bill – named after its Republican sponsors in Congress – provides for legal action against foreign companies and their executives who "traffick" in expropriated property formerly owned by US citizens, including Cuban exiles.

The European declaration expressed regret that the Castro regime had failed to introduce democratic reform. But it added bluntly: "The EU asserts its right and intention to react in defence of the EU's interest in respect to this legislation and any other secondary boycott legislation which has extra-territorial effects."

The EU's combative tone sets the stage for a confrontation which may be hard to contain in a US presidential election year, in spite of the commitment on both sides to strengthen transatlantic business and political ties under an action plan agreed at last December's EU summit in Madrid.

In the next few days, a US report is due to be released into the shooting down of two small Miami-based civil aircraft by Cuban jets – an incident that gave impetus to the Helms-Burton legislation aimed at tightening the economic noose round President Fidel Castro.

US officials last week leaked extracts of this report which appeared to justify the State Department view that the shooting down took place in international airspace, contrary to Cuban claims.

Earlier this month, the European Commission asked President Clinton at the EU-US summit in Washington to use his presidential waiver to nullify Title Three of the Helms-Burton bill. Such a conciliatory gesture would protect foreign investors from being sued for dealing in Cuban buildings and property.

Mr Clinton can waive this part of the bill for six-month periods, beginning on July 15. But he cannot waive Title Four, which bars from the US individuals and their families or "agents" such as lawyers or accountants acting for a corporation or its executives.

The extra-territorial aspects of the bill have provoked outrage, particularly in Europe, Mexico and Canada. The EU has demanded consultations under the World Trade Organisation.

The Italian government is particularly exercised over the provisions of the bill, because it targets Stet, the Italian telephone company. Stet bought a stake in a Mexican company in which Cubans had an interest and now finds itself on a list of potential US targets.

The EU is also worried about pending legislation relating to trade with Libya and Iran, both judged rogue states by the US.

OBITUARY: ANDREAS PAPANDREOU

Autocratic leader who broke the right's grip

In a country with a tradition of producing politicians who inspire strong passions, Andreas Papandreou, Greece's first socialist prime minister, must be counted one of the most controversial of all.

Papandreou's 35-year political career was filled with contradictions. As an ex-economics professor whose irresponsible fiscal policies in the 1980s plunged Greece deep into debt, and a former American citizen who came to power on a fiercely anti-western platform, he was always open to accusations of political opportunism.

His most remarkable feat was to lead the Panhellenic Socialist Movement (Pasok) back to power in the general election of October 1993 at the age of 74. Papandreou battled successfully against ill-health, corruption charges and criticism of his private life, marked by a much-publicised affair and eventual marriage to Dimitra Liani, an Olympic Airways stewardess more than 30 years his junior.

Yet despite abrupt shifts in both economic and foreign policy, which saddled Greece with large deficits and exasperated its EU and Nato partners, Papandreou went some way towards achieving his aim of modernising Greece.

By the time he regained power, Pasok had moved away from its radical third world outlook and dirigiste economic policies and become more of a European social democratic party, embracing the EU's single market, the free-market economy and even privatisation.

Born on February 5 1919 on the Aegean island of Chios, Papandreou was exposed to the volatile Greek political world from an early age as the son of George Papandreou, a prominent centrist politician.

His start in politics, organising a Trotskyist group at Athens College, a US-founded private school for the sons of the Greek elite, had potentially disastrous consequences. The young Papandreou was arrested by the rightwing Metaxas dictatorship in 1939 and roughed up. Rather than risk imprisonment, he emigrated to the US, where he studied economics at Harvard and became a US citizen after serving in the US navy medical corps.

Papandreou's academic career flourished, leading to an economics chair at the University of California at Berkeley in 1955 and a reputation as one of the leading economic theorists in the US.

His first marriage to Christina Rassia, a Greek-American psychiatrist, ended in divorce. In 1952 Papandreou married Margaret Chant, a public relations executive whom he first met in a dentist's waiting room.

Appointed chairman of Berkeley's economics department, with a strong interest in Democratic party politics, Papandreou appeared set to remain in the US. Greece, however, exerted a strong pull and in 1961 he accepted an offer from the conservative prime minister, Constantine Karamanlis, to establish an economic research centre to help shape the country's future.

With his father's Centre Union party clearly headed for power, he was soon drawn into active politics. Papandreou was elected to parliament from Achaia, the family's original home, and joined his father's cabinet, becoming economy minister in 1963.

As a member of the government, his outspoken criticism of US embassy involvement in Greek politics, and alleged ties with a group of young army officers accused of trying to overthrow the monarchy, contributed to increasing political instability.

When the colonels' junta seized power in April 1967, Papandreou was arrested and held in solitary confinement for eight months. Released through the mediation of several influential US politicians and economists, Papandreou

Andreas Papandreou: maverick policies distanced Greece from its western partners

found himself in exile again, first in Sweden, then in Canada.

Returning to Greece in 1974 after the junta's collapse, he founded Pasok, a party with a Marxist charter and strong anti-American bias, which exploited the resentment among Greeks of US support for the military regime.

Pasok gained ground steadily, building a firm base with the help of Papandreou's persuasive rhetoric. At the 1981 elections the socialists swept to power on a platform calling for *allaghi* (change).

Once in power Papandreou abandoned his threats to take Greece out of the European Community and shut down the US military bases. At the same time he appeased Pasok's radical wing by keeping up a steady stream of anti-western rhetoric and by nationalising several large Greek industrial companies – a move that effectively frightened away private investment for the rest of the decade.

His maverick policies also distanced Greece from its western partners. His refusal to endorse European positions towards the Soviet Union, together with an insistence on close ties with Libya and other radical Arab regimes, damaged ties with Brussels and reduced Athens' chances of winning support for its problems with Turkey over sovereignty in the Aegean.

The mercurial quality of Papandreou's politics was reflected in his personal life: close political allies and friends of long standing would be dropped without warning. Yet despite his autocratic style, he never relished the trappings of office. One former cabinet minister said: "He preferred a bohemian life – convivial evenings in tavernas or over a bottle of whisky, and female company".

The first Papandreou government implemented long-overdue social reforms and overhauled higher education. But its insistence on maintaining generous wage and welfare payments at a time of stagnant growth took public sector borrowing to record levels.

The deteriorating state of public finances effectively brought Greece's socialist experiment to an end in 1985, when Papandreou introduced austerity measures, followed by a gradual liberalisation of financial markets.

Increasing corruption within Pasok, coupled with Papandreou's open relationship with Ms Liani, eroded the government's popularity. In 1988 a $200m embezzlement scandal at the Bank of Crete was linked with the government just as Papandreou was undergoing open-heart surgery.

Pasok lost power to the conservatives at a general election in 1989. Papandreou was charged with bribery and breach of trust in the Bank of Crete affair, only to be acquitted after a year-long trial which he refused to attend.

The trial also revived a 25-year-old personal feud with Constantine Mitsotakis, the Conservative who succeeded Papandreou as prime minister. As ambitious young Centre Union politicians, Papandreou and Mitsotakis were cabinet colleagues, but Papandreou never forgave Mitsotakis for bringing down his father's government in 1965 by defecting with a group of deputies. Yet he mellowed during his second term in office to the extent of allowing corruption charges against Mitsotakis in a 1992 privatisation to be dropped.

Papandreou's second term in office was marked by weakening health, which restricted his capacity to address Greece's worsening economic problems or improve strained relations with its Balkan neighbours.

Despite worsening health, Papandreou kept a tight grip on foreign affairs but in the final months in office he allowed his economic ministers greater freedom to push market policies, approving flotations of state corporations and efforts to restrain inflation. His aura of authority was still so strong that would-be successors lacked the confidence to force him into retiring.

His death ends the era of authoritarian control over Greek political parties and opens the way for government by consensus.

Kerin Hope

Italian hopes of early re-entry into ERM hit

By Robert Graham

The re-entry of the lira into the European exchange rate mechanism (ERM) is now considered unlikely before autumn.

The new centre-left government of Mr Romano Prodi had hoped to use the two-day European summit under the Italian presidency in Florence to announce a deal on the lira, which was forced out of the ERM in September 1992.

Two weeks ago, after meeting French President Jacques Chirac, Mr Prodi said preparations for re-entry would begin with France and Germany immediately after the Florence summit. But as the summit closed on Saturday, Italian officials declined to offer any date and other EU delegates were cautious in public discussion about the lira.

When asked by journalists about re-entry, Mr Prodi avoided any commitment about the timetable.

Despite French and German support for the lira to be brought back inside the ERM to prevent a repetition of the Italian currency's damaging competitive devaluation, there was no sign of any agreement on the possible parity.

Discussion in recent weeks has centred on trying to find agreement to anchor the lira against the D-Mark between a high of L1,000 and a low of L1,050. The lira is currently trading around L1,010.

Italian exporters have voiced concern about any hasty move

Romano Prodi: focused on issue of monetary union

that might prejudice foreign sales already affected by this year's much strengthened lira. Mr Prodi himself has made it clear the parity must be clearly studied to ensure the lira is not forced out once it rejoins.

At the summit Mr Prodi sought to focus on the broader issue of monetary union, giving a clear signal that Italy intended to have "all its cards in order" to be a proper partner in the single currency.

The premier showed his fellow EU leaders he was fully committed to monetary union, even if Italy intended to press for a flexible approach in judging the convergence criteria laid down by the Maastricht treaty.

Italy thus will be winding up its EU presidency at the end of the month with a committed EU agenda. This contrasts with the lukewarm enthusiasm for Europe shown by the Berlusconi government, the weakness of the succeeding Dini non-parliamentary administration and the caretaker administration that governed during much of the presidency.

The final phase of the presidency proved a considerable diplomatic success.

Mr Lamberto Dini at the foreign ministry was instrumental in brokering a deal to end Britain's non-cooperation policy as a result of the ban on British beef. The issue could have derailed the summit, but a compromise was tied up in the opening moments, scarcely disrupting business.

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Legislation to curtail Emu speculation outlined

By Gillian Tett in Brussels and George Graham in London

Business contracts should not be upheld in a European law court if they flout the fixed exchange rates during European monetary union, the European Monetary Institute has warned.

The warning, contained in a confidential EMI draft of the legal framework for Emu, comes as central bankers seek to prevent market speculation against a future single currency, the euro.

In particular, central banks are keen to ensure the markets cannot threaten the fixed currency rates that will be in operation during the transitional phase of Emu, scheduled to take place from 1999 until the euro is fully introduced in 2002.

The proposal from the EMI – forerunner of a European central bank – is likely to be welcomed by governments and many banks, as it would give more legal support to the next stage of Emu.

Mr Colin Bamford of the Financial Law Panel in London said: "What this proposal is saying to the markets is that there is no point in trying to enter into speculative forward contracts." He added: "In our view this is essential to make Emu solid. But it is obviously going to upset people in the markets who wanted to make money out of all this."

The move may also be controversial in some legal circles, not least because it is thought by bankers to be the first time governments have attempted to legislate against currency speculation in this way.

And the suggestion is viewed with unease by some national governments and officials in the European Commission who fear it would interfere with the principle that businesses have full freedom to set their own contracts.

Under current law, for example, central bankers have no means of enforcing fixed exchange rates on businesses, or preventing businesses from using any rate they wish in contracts.

However, the EMI's proposed regulation would state that "no legal action will be available to enforce any conversion rate other than the official rate" for dealings between currencies or against the euro. The only exception would be if "such a rate was agreed before the adoption of the official conversion rates".

A final decision on whether the principle should be implemented is not expected until next month, when the European Commission submits its formal plans for the new legal framework needed for Emu.

Discussion about the new law has intensified in recent weeks after the EMI and Commission each submitted drafts of a legal framework for Emu to a meeting of the secretive monetary committee 10 days ago.

The drafts show there is already considerable agreement between the two institutions on the legal framework for Emu.

They indicate that many of the general legal issues surrounding the replacement of national currencies by the euro have been broadly agreed, together with some of the technical details such as how to round up currencies when converting through exchange rates.

However, several key areas remain uncertain.

The Commission, for example, is unsure which article of the Maastricht treaty should be used for the legal changes, and whether these changes should be introduced immediately by all members, or agreed later by those participating in monetary union.

Meanwhile, the Commission's proposals to ensure the continuity of contracts are also viewed by some bankers as inadequate. Another key problem, which remains outside the control of the EMI and Commission, is that it is still unclear whether European legal rulings on the status of the euro will be recognised outside the EU.

Statistics pose further hurdle on rocky road to monetary union

When Europe's leaders decide in 1998 which countries will qualify for European monetary union, they will be expecting plenty of battles. One controversy they might not yet be prepared for, though, is the matter of Europe's statistics.

For unless statistical agreements can be thrashed out in coming months, there is a danger that Europe's leaders will not have uncontested data on which to base their decisions on Emu membership.

And unless data gathering systems can be rapidly improved in many countries, the future European central bank may not even have the information it needs to run monetary policy once Emu starts.

As an official in one national statistics office says: "Politicians tend to think statistics can be produced for no money out of thin air. But the problems with Emu are serious."

Difficulties arise because the statistical systems used by individual countries vary significantly in methodology and quality.

At one end of the spectrum, data produced by the Scandinavian countries, France and the UK are deemed reliable, as they include monthly figures on most sections of the economy, backed up with extensive surveys.

However, at the other end of the spectrum, such countries as Greece and Belgium produce only patchy data. Although Belgium, for example, is improving its figures, it still has no recent data on gross domestic product – and figures from the end of 1995 are disputed.

As Mr Frank Laurent, an economist at the Belgium Business Federation, says: "We are the bad pupil of Europe. People are trying to improve the data but they are still not good."

Meanwhile, the countries between these extremes – Italy, Spain, Portugal, Austria, Ireland, Germany and Luxembourg – produce information with varying timelags, and different coverage of items such as services.

If the data are only used for purposes of national policy, these differences may not matter.

But with Emu looming they have become important for two reasons: EU leaders must measure the same items when they judge economies for Emu entry; and once Emu starts, the future European central bank will need a harmonised system for tracking money flow across borders.

In theory the best way to ensure real compatibility would be to use exactly the same method to gather and process statistics.

But this option is not feasible without considerable expenditure. And so the best interim solution is to make the statistics collected by each country as comparable as possible – while persuading laggards to improve.

The bodies charged with this daunting task – the European monetary institute and Eurostat, the statistical wing of the European Commission – insist in public that this should be possible.

As Mr Yves Franchet, director of Eurostat, says: "I am sure we will have the data we need ready for Emu."

But in spite of the heroic efforts both institutions are now making, some observers remain doubtful. As one official closely involved in the process says: "The reality is that there may not be high-quality data acceptable to everyone by 1999."

Part of the problem is one of resources: Eurostat's annual budget of Ecu100m ($123m), for example, already faces a shortfall of some Ecu46m over the next two years.

'Politicians tend to think statistics can be produced for no money out of thin air'

However, the other problem is time. At least three years of figures are needed to adjust for seasonal patterns, and longer to establish credibility. As Mr Franchet says: "Creating statistics is like building a road. You cannot do it fast."

In some areas, such as fiscal deficits, considerable progress has already been made.

However, other data remain problematic. Money supply and balance of payments figures – crucial for the future operations of the European central bank – are currently gathered differently. And although central banks recently agreed a broad methodology, this can only be implemented if banks and building societies make costly changes to their reporting systems.

Problems also remain with some of the criteria for Emu entry. Inflation data, for example, are particularly sensitive, since countries include different items in their price lists.

Another problem is gross domestic product. Although such countries as Italy at present include estimates of the black economy, others such as Belgium do not.

And although Eurostat is preparing revised GDP data to harmonise methodology, these revisions could be significant: the GDP of Belgium and Portugal is likely to rise by 15-20 per cent, with a corresponding downward effect on the Emu criterion of deficit as a percentage of GDP.

The European Commission insists these revisions will not be taken into account in the 1998 Emu judgments. But they could add a note of uncertainty into any judgments about debt to GDP levels.

And even without revisions, there is an additional problem of timing. EU leaders plan to judge Emu in 1998 on 1997 figures.

However, countries are likely to produce the data at different times.

And although the European Commission hopes to have all the data ready by spring, the trickle of information will leave the politicians on tenterhooks – and give them good reason to pay more attention to Europe's oft-ignored and under-funded world of statistics.

Gillian Tett

Yavlinsky party refuses to endorse Yeltsin

By John Thornhill in Moscow

Russia's biggest liberal party yesterday dealt President Boris Yeltsin's re-election hopes a blow when it refused to endorse him against his communist challenger for the run-off presidential election on July 3.

After hours of debate at a weekend congress, the Yabloko movement, headed by Mr Grigory Yavlinsky, withheld majority support from Mr Yeltsin despite the president's attempt to enhance his democratic credentials by sacking three hard-line aides last week.

After coming fourth with 7 per cent of the vote in the first round of voting on June 16, Mr Yavlinsky has argued that Yabloko should offer conditional support to Mr Yeltsin, forcing him to temper his more extreme policies.

"Our main principle is to preserve a civil society and we should act accordingly," Mr Yavlinsky said yesterday.

But many Yabloko supporters argued they could not back Mr Yeltsin because of his conduct of the Chechen war and his regime's growing authoritarianism.

Eighty seven of 152 Yabloko delegates supported a move to vote against both candidates in the July 3 poll; 63 supported Mr Yeltsin while only two backed Mr Gennady Zyuganov, the Communist party challenger.

Mr Yeltsin, who topped the first round of voting earlier this month with 35 per cent of the votes, has been desperate to broaden his support to secure victory against Mr Zyuganov, who won 32 per cent.

The president's campaign staff believe most of Mr Yavlinsky's 5.6m voters, composed mainly of young, urban professionals, are instinctively anti-communist but fear many of them will not vote.

The 65-year-old president has already moved to secure the support of the third-placed Mr Alexander Lebed by nominating the former army commander as his security supremo.

But Mr Lebed's electorate remains an unknown quantity and it is not clear to what extent it will swing behind Mr Yeltsin.

In a further attempt to woo Mr Lebed's 11m supporters, Mr Yeltsin stole the former general's nationalist slogan on a campaign trip to the Baltic enclave of Kaliningrad when he emphasised "freedom and order".

Mr Yeltsin promised he would defend the rights of Russian-speaking minorities in the independent Baltic states. "Guaranteeing the basic rights and freedoms of our compatriots is a priority for me," Mr Yeltsin said.

Foreign investors seem confident of Mr Yeltsin's victory, pushing Russia's equity market higher last week.

"I am still 98 per cent certain Mr Yeltsin will win," said one western banker yesterday.

But Mr Yeltsin's staff fear a low turnout on July 3 could prove disastrous and are sponsoring a series of extravagant rock concerts to help mobilise the youth vote.

NEWS: ASIA-PACIFIC

Japan plans G7 initiatives on foreign aid

By William Dawkins in Tokyo

Japan, the world's largest aid donor, is to launch a series of initiatives at this week's summit of the Group of Seven rich industrialised nations to improve the effectiveness of international development assistance.

Tokyo will use the summit, in Lyons on June 27-29, to propose that savings from the reform of United Nations agencies involved in trade and the economy be recycled to developing countries as aid.

"If these reforms were to end up as reform for reform's sake, they would not be supported by the majority of members of the United Nations, which are developing countries," said Mr Kazuo Ogura, personal summit "sherpa" for Mr Ryutaro Hashimoto, the Japanese prime minister.

Just how much cash could be released is as yet unknown, but it could be up to 20 per cent of the budget of the agencies concerned, said Mr Ogura, who is also Japan's deputy foreign minister.

Japan, which allocated $14.72bn of development assistance last year, up 9 per cent on 1994, will ask its G7 partners to propose the establishment of a UN task force to work out details, said Mr Ogura. Such a scheme had been discussed at the World Bank and in the OECD's development aid committee, where it had gathered some support.

In a second development initiative, Mr Hashimoto is expected to support a plan, also under discussion in the OECD, under which aid donors and recipients would agree achievement targets, to give such assistance a tighter focus.

The UK and France are planning jointly to announce a targeted aid plan for African countries, to which Japan is expected to contribute about $100m, said Mr Ogura. The target will be to achieve full primary school attendance by 2010 or 2015.

"The aim is to join hands to realise these targets and work out new development strategies," said Mr Ogura.

At the G7 meeting Japan will announce plans to host an international conference on African development, a follow-up to a similar Japanese conference two and a half years ago.

China's bid to join the World Trade Organisation is another issue that Mr Hashimoto will pursue in Lyons. "It is getting politically unnatural for us to see China still out of the WTO," said Mr Ogura.

Its absence from the organisation threatened to "weaken the whole trading system" because China could not, as a non-member, be asked to observe international trade rules, he argued.

Mr Ogura believed that US doubts over Chinese accession to the WTO, on which Washington used to be the leading sceptic, had eased a little since last week's agreement by China to curb abuse of intellectual property rights, over which the US had threatened trade sanctions.

Risk of capital flight from HK seen as 'low'

By John Ridding in Hong Kong

Hong Kong residents are well advanced with diversification of their assets into foreign currency, reducing the risk of capital flight ahead of the territory's return to China next year, according to a survey commissioned by Crédit Lyonnais Securities (Asia), regional arm of the French banking group.

"The population of Hong Kong has largely completed its financial preparations for the 1997 handover," says a report based on the poll by the Chinese University of Hong Kong. As a consequence, it concludes that "the prospects of capital flight are low".

Capital flight is seen as one of the main financial risks facing Hong Kong as it prepares for return to Chinese sovereignty in little over one year.

A strong shift out of the Hong Kong dollar would also exert pressure on the currency's peg rate against the US dollar, which has been in place since 1983.

According to the survey, 23 per cent of respondents have more than 50 per cent of their savings in foreign currency, while 27 per cent said they had more than half their total assets in currencies other than Hong Kong dollars.

Forty per cent said they planned no change in their Hong Kong dollar assets over the next two years, 18 per cent said they would decrease their Hong Kong dollar assets and 30 per cent planned an increase.

"The level of foreign currency assets on the personal balance sheet is very high by international standards," said Mr Russel Napier, regional strategist at Crédit Lyonnais Securities (Asia).

He cited the currency peg and uncertainty relating to political change after 1997 as the driving forces in diversification and argues that pessimism about post-1997 prospects is already discounted in savings patterns.

Pessimism on issues relating to the handover was revealed in the Chinese University survey. Fifty-nine per cent of respondents expected a rise in corruption after the handover, while almost half believe the efficiency of the new administration will decrease.

According to Mr Napier, diversification of assets ranged from holding US dollar deposits to purchase of real estate in international markets. "This has been quite common among higher income segments, but even at the lower end there have been shifts into foreign currency denominated assets."

Opinions are divided on the prospects for further capital shifts in Hong Kong.

"We have been seeing steady growth in Hong Kong dollar assets," said the chief executive of one local bank.

"If anything there has been a return to Hong Kong dollar assets over recent months," he adds, citing a pick-up in the property market as a sign of renewed investor interest.

For others, however, political shocks ahead of the handover could still trigger a strong outflow of capital.

One private banking executive said the choice of chief executive, who will govern the territory after the handover, would prove a decisive factor in investors' decisions.

INTERNATIONAL PRESS REVIEW

Tokyo media fight shy of Sumitomo affair

JAPAN

By Emiko Terazono

The Japanese press can hardly be accused of overplaying the Sumitomo affair. The country's newspapers have appeared reluctant to tackle Sumitomo Corporation's claimed $1.8bn loss in the copper market, which it has blamed on a "rogue trader", Mr Yasuo Hamanaka, the company's former head trader.

As with some other sensitive issues, the Japanese press has been willing to cite coverage from UK or US newspapers, but has yet to deploy its own considerable reporting resources to provide a coherent explanation of a story that remains full of holes.

Using the foreign media allows the local media to avoid direct confrontation with the large companies and government organisations with which they have close and important relationships.

"What happened to the check system?" asked the *Asahi Shimbun*, a daily broadsheet, the day after the Sumitomo announcement.

The Asahi compared the case to last year's Daiwa Bank incident where a bond trader lost Y110bn ($1bn) from illicit trading on the US bond market.

Calling for Japanese companies to set up systems which can detect fraud and other "unnatural-looking trades", it also warned readers that losses at leading banks and companies were relevant to ordinary investors, who should be aware that every money-making opportunity contained risks.

The *Yomiuri Shimbun*, the broadsheet with the largest daily circulation, warned: "Do not let Japan's reputation fall any further." However, its coverage of the incident was pushed to the back pages.

The *Nihon Keizai Shimbun*, the business daily which prides itself on corporate scoops, has also been surprisingly quiet.

In an article last week, it noted that aside from Sumitomo, Chile's state-owned copper company, Codelco, and Citic, China's state run investment corporation, had also incurred large losses in trades related to the London Metal Exchange over the past few years.

It suggested that there was an international conspiracy – a "Copper-gate" – and offered readers a theory that Mr Hamanaka could have been one of many who had fallen victim to a mysterious "ring inside the ring" – a secret trading group inside LME's ring members.

The populist weeklies, meanwhile, chose to focus on the man at the centre of the affair. Mr Hamanaka was "Sumitomo Corporation's biggest embarrassment" said a headline in the *Shukan Bunshun*.

It explained that while Mr Hamanaka blemished Sumitomo's name, the man nicknamed "The Hammer" and "Mr Five Per Cent" for controlling 5 per cent of trades in the world's copper market, was given the Sumitomo president's award three times for his contribution to earnings.

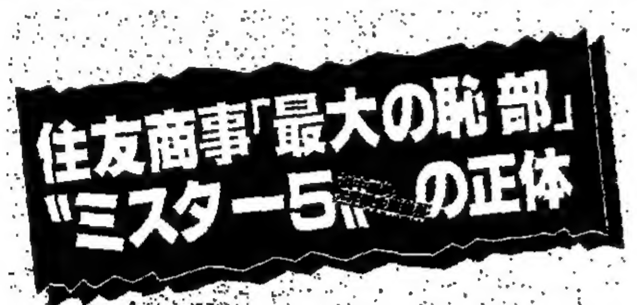
The Bunshun's description of Mr Hamanaka paints a picture of an alarmingly ordinary Japanese office worker. He was 165cm, not interested in drinking heavily or gambling, and his golf skills were mediocre.

According to the *Shukan Shincho*, another popular weekly, Mr Hamanaka's losses were caused by a showdown on the futures market with Mr George Soros, head of the US Quantum fund. Quoting traders in London, Shincho said Sumitomo's losses could be as much as double the initial estimate.

The lack of close links with corporations and government agencies has tended to give the weeklies more freedom in their coverage. Both magazines suggested that Sumitomo knew more than it was letting on. The Bunshun quoted an industry trader implying that the company was involved in Mr Hamanaka's dealings and that he became a scapegoat.

The Shincho noted how Sumitomo's management had been hailing Mr Hamanaka, with the president seeking him to see for himself what a great trader looked like.

"Trying to convince the US and UK authorities that 'no one in the company knew' will not be easy," it pointed out.



Headline in Japan's Shukan Bunshun: "Sumitomo Corporation's 'biggest embarrassment' – the truth about 'Mr Five'"

Bangladesh parties boost prospects for stability

By Mark Nicholson, South Asia Correspondent

Sheikh Hasina, leader of the Awami League, was sworn in yesterday as Bangladesh's prime minister – ending 21 years of political opposition for the party forged by her father, Sheikh Mujibur Rahman, who led the state to independence after its war with Pakistan in 1971.

The Awami League was ousted from power by a 1975 military coup in which Sheikh Mujibur and most of Sheikh Hasina's closest relatives were slain.

It will govern now with the support of the Jatiya party, whose leader – General Hossain Mohammed Ershad – was "paroled" from jail for a few hours to attend the swearing-in.

The 64-year-old general, jailed on corruption charges after being deposed by a pro-democracy movement in 1990, said his party offered "unconditional" support to Sheikh Hasina, 49, who promised to run a government of "national reconciliation" and "consensus".

The Awami League won 146 of 300 contested seats in the June 12 poll, 30 more than the defeated Bangladesh Nationalist party (BNP) led by Mrs Khaleda Zia. The Jatiya party won 32 seats.

The new government will boost its majority through a constitutional rule allowing the parliamentary election of a further 30 women MPs.

BNP leaders yesterday repeated allegations that the vote was widely rigged, notwithstanding unanimous reports from international observers to the contrary. "Our victory has been stolen," said Mrs Zia. However, she said her party would attend parliament.

The BNP's decision offers some promise that Bangladesh can enjoy a properly functioning parliament after two years of political stalemate and violence during which Sheikh Hasina led a series of protests and strikes against BNP.

The inexperienced Awami League now has to wrestle with the substantial problems facing Bangladesh, one of Asia's poorest countries with a per capita gross domestic product of just over $220.

The party's policies differ more in emphasis than substance from those of the BNP, which introduced a programme of economic liberalisation on taking power in 1991. The reforms, however, have been stalled by the past two years' political feuding.

Sheikh Hasina's campaign, bolstered in March by widespread peaceful protests from professionals, academics and bureaucrats, culminated in Mrs Zia's resignation on March 30 and installation of a "neutral, caretaker government" to oversee the June poll.

Awami League supporters have billed their victory as a personal triumph for Sheikh Hasina, who has led the party with near monarchical control since assuming its leadership in 1981. She was jailed several times for protesting against the military rulers who led the country between 1975 and 1990, when she was among leaders of a pro-democracy movement.

Pressure on LME grows

By Kenneth Gooding, Mining Correspondent

The London Metal Exchange will come under increasing pressure today to take action to ease the extreme tightness in its copper market in the wake of Sumitomo's claims that its senior copper trader concealed losses.

LME copper stocks are tightly held and this is forcing traders to pay hefty premiums for copper for nearby delivery. On Friday, there was a premium of $100 a tonne between copper for immediate delivery and metal for delivery in three months.

Traders are also having to pay unprecedented premiums to roll short positions (contracts to sell) forward: $20 a tonne to roll forward for one day and $28 to roll forward for a week.

One trader complained at the weekend that this resulted from the tactics of Mr Yasuo Hamanaka, the Sumitomo trader, who frequently squeezed the market by taking control of much of the available LME stock.

The trader suggested that Sumitomo had handed control of its LME copper stocks to banks as collateral for credit they were supplying. Consequently, the banks were not able to release metal to ease the tightness.

Other traders pointed out, however, that the potential problems in the LME copper market had been well signposted.

A year ago the LME executive was already warning about potential technical tightness. The executive took action in May and limited the cost of rolling forward a short position for one day.

Banks burnt in meltdown, Page 18

Arab leaders in Cairo warn that Middle East could slip back into violence

Summit insists on land for peace

By David Gardner in Cairo

Arab leaders believe they have sent a calm but unambiguous message to Israel from their summit in Cairo at the weekend: peace in the Middle East and any further rapprochement between Arabs and Israelis depend on Israel returning all Arab land it has taken in the wars since 1967. Otherwise, they say, the region will sink back into violence.

But the new Israeli government of Mr Benjamin Netanyahu, a coalition of rightwing groups, immigrants and religious fundamentalists, has said it will subordinate peace to Israel's security.

What the Arabs have spelt out is the diametrical opposite: a Palestinian state with Arab Jerusalem as its capital, the dismantling of the settlements, and the return of the Golan and south Lebanon as the sine qua non of peace.

The previous, Labour-led coalition in Israel adopted the premise that the best guarantor of Israeli security was peace with its Arab neighbours, accepting the "land-for-peace" formula endorsed by the US and Russian-sponsored Madrid conference on Middle East peace of 1991.

Land-for-peace is the principle upon which the UN Security Council Resolutions requiring Israeli withdrawal from east Jerusalem, the West Bank, the Golan and Lebanon are based.

It is also the underpinning of the 1979 peace treaty with Egypt, the 1994 treaty with Jordan and the 1993 Oslo accords with the PLO.

Oslo has led to interim Palestinian autonomy in most West Bank cities and Gaza, but awaits "final status" negotiations on Jerusalem, borders, the right of return of Palestinian refugees and the future of the settlements.

Mr Netanyahu will undermine the entire basis of Middle East peace, the summit declared, if he tries to use Arab land for Israel's security. "Security cannot be achieved by the occupation of land and ignoring the rights of others," President Hosni Mubarak of Egypt, the summit host, told leaders from 19 other Arab states.

At Syria's urging, the Arab leaders said if Israel moved the goalposts on land-for-peace, the region could return "to a cycle of tension and violence", and they would be "forced to reconsider the steps taken towards Israel in the framework of the peace process, for which the government of Israel will bear sole and full responsibility".

This is not a threat, Arab officials were at pains to point out, but a statement of the obvious, which puts the ball in Israel's court. "We don't have to speak about *alternatives* at this stage," Mr Amr Moussa, Egypt's foreign minister, said late on Saturday. "*He [Netanyahu] has stated his policies and we have stated our policies.*"

But this is the first summit the Arab world has managed to stage since Iraq – which was not invited – invaded Kuwait six years ago. The unity of the Arab nations, more talked about than practised, is still very fragile.

Mr Mohammed Hassanein Heikal, the leading commentator and former Nasser intimate, said yesterday that the weekend's summit was "little more than a smokescreen" but that "the symbolism of Arab unity" remained important.

The unanimity of the "Cairo declaration" could not hide the divisions in Arab ranks, although Egyptian mediation papered these over. Syria – along with Lebanon, which is dominated by Damascus – has reviled Palestinian leader Mr Yassir Arafat and Jordan's King Hussein for breaking ranks and making separate deals with Israel. Jordan, moreover, accuses Syria of sponsoring terrorist organisations opposed to the king, while Damascus believes the Jordanians are working with Israel and Turkey to undermine Syrian President Hafez al-Assad.

Jordanian officials say some fences have been mended with Syria. But this does not alter the impression that King Hussein "has made his strategic choice", as one Arab commentator put it, to ally with Israel and Turkey. The Gulf states, moreover, led by Saudi Arabia, depend for their security on the US rather than their Arab brothers, as the 1990-91 Gulf crisis amply demonstrated.

A revealing sign of these persisting divisions was the summit's fudging on terrorism – seen as a threat by nearly all Arab states just as much as by Israel. The mainstream Arab view is that resistance to occupation is legitimate. But the mainstream Arab fear is that Islamic fundamentalists, the only groups which regularly launch attacks against Israel, could become the nemesis of many Arab regimes struggling to defend their legitimacy and closer relations with Israel.

Islamists are in the field in Egypt and Lebanon and in Algeria's savage civil war, are underground and violent in Bahrain and Saudi Arabia, under the gun in Syria and Tunisia, which has repressed them severely, and in parliament in Jordan and Kuwait. This is relative stability in comparison with what could happen if the peace process goes sour, especially in the Palestinian self-rule areas, where Hamas challenges Mr Arafat as well as Israel.

"Look, Hamas, is more or less finished," says Mr Ahmed Korei (Abu Ala), architect of the Oslo accords and speaker of the Palestinian legislature elected in January. "But if the Israelis go against peace, everyone will be Hamas."

"It's going to blow up in all our faces," a senior Egyptian official says, "*if we do not find a peace partner.*" When Hamas launched four suicide bomb attacks inside Israel in February and March, Egypt hosted an international "anti-terror" summit in Sharm el-Sheikh to buttress the peace process. That could not happen again if Mr Netanyahu persists with his programme because "that was based on a logic that we all agree on the peace process", the same official says, adding: "I truly believe we are in deep trouble."

Official Communique of June 1996 Arab Summit

- Any setback in the peace process will compel the Arabs to reconsider steps taken in the context of relations with Israel, for which the Israeli government will bear sole and full responsibility
- All Israeli settlement activities in the occupied Syrian Golan Heights and the occupied Palestinian territories, including Arab Jerusalem, should halt and these settlements removed
- To reach comprehensive peace, the question of Jerusalem and the Palestinian refugee problem need to be resolved. Arab Jerusalem should be the capital of an independent Palestinian state
- Strong indignation is expressed at the interference in the internal affairs of Bahrain. Iran is called on to respect the sovereignty of Bahrain and to end its occupation of three islands claimed by the United Arab Emirates
- Turkey is called on to reconsider its military agreement with Israel
- All Arabs should oppose any policy that affects the territorial integrity of Iraq

Israel's new government showed its first split yesterday as ministers clashed over the need to compromise with Syria about the Golan Heights, Yaroslav Trofimov writes from Jerusalem.

The controversy began on Friday, when the moderate foreign minister, Mr David Levy, a long-time personal rival of the new prime minister, Mr Benjamin Netanyahu, suggested that Israel might meet Syria "half-way" on the Golan problem.

Damascus demands a total Israeli withdrawal from the heights, occupied in 1967, while the new Israeli government guidelines insist that retaining sovereignty over the Golan must be the basis of an eventual peace settlement.

Mr Levy's statement, taken as an indication that Israel may agree to a partial withdrawal from the Golan, was received with sympathy at the Arab summit in Cairo.

However, yesterday, after a day-long silence caused by the Jewish Sabbath, other Israeli officials hastened to disavow Mr Levy's conciliatory overture. Their reaction seemed to indicate the beginning of a serious government split over the course of the peace process.

Mr Netanyahu's spokesman said: "To my knowledge, Mr Levy did not obtain a clearance for this statement from the prime minister. Only statements made by the prime minister reflect Israeli policy on these political issues."

Other ministers in Mr Netanyahu's government went even further. "There is nothing to compromise about on the Golan Heights. I don't think we have to compromise," said the minister of agriculture, Mr Rafael Eitan, a retired general who serves in Mr Netanyahu's inner security cabinet.

INTERNATIONAL NEWS DIGEST

Vietnam power plant deal

Vietnam has selected privately held Oxbow International Power of the US to construct a $315m build-operate-transfer power plant in northern Vietnam, which could become the country's first privately financed power project, the semi-official weekly Vietnam Investment Review said yesterday.

Mr Bernard Cherry, Oxbow's president, was quoted as saying the company would start negotiations with the state power monopoly, Electricity of Vietnam (EVN), for a contract to build a 300MW plant in coal-rich Quang Ninh province. Hyundai of South Korea and American Electric Services (AES) had also been shortlisted.

The VIR said Oxbow would operate the plant for 20 years once it was commissioned in 1999. It would be fired by low-grade coal, which exists in abundance in Quang Ninh, home to a large coal-mining industry.

Industry officials said at the weekend that EVN had selected K&N Engineering of the US as consultant for the roughly $500m Phu My Two Phase 2 plant, in southern Ba Ria-Vung Tau province. Part of K&N's job would be to develop BOT legislation for Vietnam. *Jeremy Grant, Hanoi*

World Bank targets poverty

World Bank staff and managers are to be judged by their success in reducing world poverty, the bank said yesterday, adding that it would introduce new pro-poor benchmarks for job evaluation as part of its efforts to improve the efficiency and effectiveness of its operations.

Helping developing countries reduce poverty is the central mandate of the bank and would henceforth be "the bottom line" in assessing staff performance, said Mr Caio Koch-Weser, Managing Director for Operations. Mr Koch-Weser's comments coincided with the publication of a World Bank study of world poverty* which found only modest success so far in poverty reduction.

The report says average incomes in developing countries have nearly doubled in the last 25 years. And over a generation, infant mortality rates have fallen and life expectancy risen: average life expectancy in the developing world in 1993 was 65 years, up from 56 in 1970, and infant mortality had fallen from 97 per 1,000 live births to 54 in the same period. But the proportion of people living in poverty has declined only slightly, with 29.4 per cent of the world's population living on under $1 a day in 1993, down from 30.1 per cent in 1987. *Patti Waldmeir, Washington*

** A summary of the study, Poverty Reduction and the World Bank: Progress and Challenges in the 1990s, is available by phoning (202) 458-1800 in Washington.*

Archbishop Tutu steps down

Archbishop Desmond Tutu *(above)*, the flamboyant South African cleric who mobilised international opprobrium against the apartheid regime, yesterday retired as head of the Anglican Church in Southern Africa.

At a farewell service in Cape Town, President Nelson Mandela praised the 64-year-old archbishop for his role as "an effective voice of the people of South Africa when so many of their leaders were imprisoned, exiled, banned and restricted" during the harsh years of emergency rule.

Mr Tutu will devote himself full time to his new role as head of South Africa's Truth and Reconciliation Commission appointed to investigate human rights abuses committed during the apartheid era.

The 1984 winner of the Nobel Peace Prize was demonised by the South African media for his anti-apartheid activities during the 1980s, but became the focus of international attention when he was appointed the country's first black archbishop in 1986. *Mark Ashurst, Johannesburg*

World Bank chief to lose key aide

By Patti Waldmeir in Washington

Mr James Wolfensohn, the World Bank president, is to lose his chief of staff in a high-level defection from the management team which he put together to direct a big reorganisation of the bank.

Ms Rachel Lomax, the former UK Treasury and cabinet office official who was one of Mr Wolfensohn's first appointees when he took over as president a year ago, is to leave the post of chief of staff in the president's office to become permanent secretary at the Welsh Office. The move will be announced by the bank later today.

World Bank officials said they regretted the move, which they feared would be interpreted as a vote of no confidence in Mr Wolfensohn and his controversial programme of internal reforms. They noted that Ms Lomax and Mr Wolfensohn had had a stormy professional relationship, involving frequent and sometimes public disagreements. Other senior bank officials have complained of the volatile temper of their president, who they say is quick to anger and intolerant of criticism and who sometimes rebukes his subordinates in public.

They say Ms Lomax shared some of the same personality traits.

But Ms Lomax was yesterday at pains to stress that her departure was not motivated by a personality clash with her boss. "He's a good friend. I get on well with him," she said. She said she believed she had completed her task at the bank by helping him create a strong executive presidency complete with a sort of "cabinet office" composed of a large team of senior advisers. "I felt it was time for me to move on," she said.

But other bank officials said the move came at a time when Mr Wolfensohn's efforts to reform the organisation were at a critical stage. After a year of considerable internal upheaval, bank staff are hoping that reforms will begin to show tangible effects.

It did not seem likely yesterday that a new chief of staff would be appointed to replace Ms Lomax, some of whose duties will be devolved to Mr Sven Sandstrom, one of the bank's managing directors. The outgoing chief of staff is expected to accompany Mr Wolfensohn as planned to the summit of the Group of Seven countries in Lyons this week.

Speculation in political circles in the UK has focused on Ms Lomax's future career. She has been mentioned as a possible candidate to become the first-ever female cabinet secretary under a Labour government.

Wolfensohn: 'good friend' of chief of staff

World pharmacy drug purchases January-March 1996 ($m)

	US	Japan	Germany	France	Italy	UK	Spain	Canada	Belgium	N'lands
Cardiovascular	2,132	797	941	894	454	262	249	172	97	89
Alimentary/Metabolism	2,369	1,057	715	641	364	316	213	141	77	112
Central nervous system	2,678	275	503	511	232	240	169	151	86	63
Anti-infectives	1,567	640	341	518	334	111	177	70	70	31
Respiratory	1,615	517	522	373	181	229	154	90	80	73
Blood Agents	725	486	188	254	129	37	74	63	24	29
Genito-urinary	938	105	246	214	104	89	48	51	24	28
Others	2,706	1,476	902	607	449	297	226	163	85	81
Total	14,730	5,353	4,358	4,012	2,247	1,581	1,328	901	523	504
% Change**	6	-4	7	10	12	9	8	2	10	2

Source: IMS International *Non-hospital market only **Increase excluding currencies

Drugs sales growth falls

By Daniel Green

World drugs sales growth slowed sharply in March as a result of destocking in Japan and in spite of good growth in Europe, according to figures published today.

Sales of prescription drugs in the world's 10 biggest markets in the first quarter of 1996 were worth $35.5bn, 5 per cent above the figure for the first quarter of 1995.

But the growth rate for the first two months had been 7 per cent, and was 9 per cent in the first month of 1996, according to figures compiled by IMS, the specialist drugs sector market research company.

Sales for the quarter in Japan, the world's second biggest market, fell 4 per cent to $5.4bn, excluding exchange rate effects. This was partly because Japanese distributors kept stocks to a minimum until the spring's mandatory price cuts were completed.

There was also a 30 per cent fall in sales of anti-infective drugs (mostly antibiotics) and an 18 per cent fall in respiratory drug sales. Both showed declines partly by comparison with high sales in early 1995, the result of an unusually serious outbreak of influenza.

European sales growth – up 9 per cent to $14.6bn – was driven by recovery in the French and Italian markets. In Italy especially, government measures to control healthcare spending in 1995 have not been repeated this year.

Sales in France rose 10 per cent to $4bn. In Italy, sales rose 12 per cent to $2.2bn.

Other main European markets also saw good growth. In Germany, sales rose 7 per cent to $4.36bn, while in the UK, sales rose 9 per cent to $1.6bn.

The world's biggest market remains the US, where sales grew 6 per cent to $14.7bn.

Much of the growth outside Japan was the result of the increasing use of nervous system drugs, led by Prozac, the anti-depressant made by Eli Lilly, the US drugs company. Nervous system drug sales rose 13 per cent to $4.9bn for the quarter.

Also growing quickly was the category called blood agents, which includes a fast selling new class of drugs designed to cut cholesterol levels in the blood. Sales of blood agents rose 16 per cent to $2bn.

The biggest medical category for drugs is in heart disease, but the sector is subject to heavy competition as patents on older drugs expire. Sales rose 4 per cent to $6.1bn.

The second biggest sector, digestive system drugs, includes two of the world's biggest selling medicines, Zantac and Losec (sold as Prilosec in the US). Digestive system drug sales rose 8 per cent to $6bn.

Thai rates may come down

Thailand's embattled central bank governor, Mr Vijit Supinit, has given commercial banks the green light to lower lending rates, a signal that the country's year-long policy of tight money may soon be over.

"The market indicates that the rates can come down," said Mr Vijit. "Manufacturing production, private investment and inflation have been declining since January and deposit rates have already started to fall."

High interest rates have been the anchor of a central bank policy to engineer a slowdown in the booming Thai economy, which last year threatened to overheat. But as the central bank has no real direct mechanism to keep interest rates high, the policy depends on the willingness of the country's commercial banks to follow guidelines and suggestions from Mr Vijit. *Ted Bardacke, Pattaya*

● Thailand's cabinet is expected to approve plans for the country's first commodities futures exchange, which will initially deal in rice and natural rubber, the country's two largest agricultural exports.

Once cabinet approval is granted early next month, the proposal will go before the full parliament, which should endorse it. Authorities see the exchange as a way to increase the price paid to farmers for commodities. *Ted Bardacke*

Strike hits Pakistan

Business activity across much of Pakistan was disrupted yesterday by a strike called by the PML (Pakistan Moslem League), the country's main opposition party. The response to the strike was seen as an expression of resentment against the June 13 budget announced by the government of Ms Benazir Bhutto.

The budget proposed tough new measures including the extension of a general sales tax to more than 200 goods. Many business people have complained at the severity of new taxes, aimed at raising Rps40.9bn ($1.17bn).

Economists say the government aim of single-digit inflation now appears beyond reach. *Farhan Bokhari, Islamabad*

Pope speaks to German Jews

Pope John Paul continued the controversy about the Catholic church's behaviour towards the Nazi regime when he unexpectedly left out a passage of a prepared speech and later told leaders of Germany's Jewish community that "too few" Catholics had resisted Adolf Hitler's reign of terror.

During a mass on Saturday in the northern German town of Paderborn, the first during a weekend visit to Germany, the pontiff dropped a part of his sermon which said the "whole Church" had put up resistance to the Nazi regime. That passage contrasted with a statement by German bishops last year lamenting a "profound failure" of Catholics to stop the spread of anti-Semitism during the Nazi era.

In Berlin, the pope did, however, beatify Bernhard Lichtenberg and Karl Leisner, two Catholic priests who died after being in concentration camps. *Michael Lindemann, Bonn*

Nigeria seeks to avert sanctions

By Paul Adams in Lagos

A Nigerian delegation in London will today begin the military regime's bid to stave off further sanctions by the Commonwealth, after its suspension from the group of former British territories last November.

The Nigerian regime of Gen Sani Abacha sees the two-day Commonwealth summit as a chance to end its international isolation after a United Nations special report last month gave some encouragement for the military's three-year programme of transition to civilian rule.

While the Nigeria issue is a big test of how the Commonwealth applies its Harare Declaration on good governance and human rights, the outcome of this week's talks will also affect the stance of Nigeria's main trading partners, the EU and US. Both are reluctant to apply economic sanctions against the oil-rich country and are looking to the Commonwealth to take the lead.

Without such action foreign pressure is likely to have little effect. After suspending Nigeria's membership, amid international condemnation of the execution of Mr Ken Saro-Wiwa and other Ogoni activists, the Commonwealth appointed an action group of eight foreign ministers chaired by Zimbabwe to visit Nigeria regularly and review its record on human rights and progress towards civilian rule before possible expulsion next year.

But the Nigerian foreign minister, Mr Tom Ikimi, barred the ministerial group from entering Nigeria, and a private invitation to the Zimbabwean foreign minister, with the promise of an audience with Gen Abacha, was then denied. This provoked fresh sanctions threats including the downgrading of all diplomatic missions, bans on direct air links and freezing of the military's private assets offshore.

While many Commonwealth nations have little to lose from sanctions against Nigeria, its main trading partner and former colonial ruler, the UK, says it supports constructive dialogue and appears to have distanced itself in recent months from a tougher line on Nigeria.

British companies are the largest investors and exporters to Nigeria.

At today's meeting the Nigerian delegation, which incudes a current and former ambassador to the UN, will argue that it has implemented two of the UN report's recommendations, relating to the civil disturbances tribunal (which convicted the Ogonis) and the right of law courts to summon prisoners detained for "reasons of state security" without trial.

The Commonwealth ministers are likely to be sceptical.

Rough justice in California

Christopher Parkes on 'three strikes' and other legal battles

The emasculation of California's "three strikes" law by judges of the state supreme court marks a big victory in the state judiciary's fight to regain the right to judge.

The seven mainly conservative Republican judges ruled last week that judges may disregard previous convictions when giving sentences, weakening the "three strikes and you're out" law aimed at habitual criminals.

Rather than mete out mandatory 25-year-to-life sentences to third-time felony offenders and double the customary terms for second-time offenders, the everyday arbiters of courtroom justice may now return to assessing punishments on a case-by-case basis.

The ruling, from a court which, according to Judge Stephen Reinhardt, a California-based member of the federal judiciary, has traditionally given a lead to the entire country, may also prompt changes in the application of variants of "three strikes" laws in 19 other US states.

But it could also act as an invitation to reaction in California, where parts of such cities as Los Angeles are terrorised by gangs and random acts of viciousness – and where members of the supreme court are elected by the public.

The ruling that in spite of the "three strikes" law, judges retained their traditional discretion in sentencing – and that it would be unconstitutional if they were deprived of it – could lead to the election in future of tougher supreme justices. The point was made by Mr Curt Pringle, speaker of the state assembly, who said judges who made "bad decisions should be voted out".

Mr Pete Wilson, state governor, one of the first to attack the supreme court decision as "intolerable", said he would support amendments proposed to restore the full rigour of the two-year-old legislation.

The referendum-style "initiative" which led to the introduction of California's "three strikes" law, was approved by 72 per cent of voters and is still popular despite unwelcome side-effects.

These include over-crowded prisons, overloaded courts and critical attention from federal legal authorities.

Mr Wilson has made much of a recent fall in Californian crime, giving the credit to the state's "get-tough" policy.

However, similar national trends are described as "cyclical" by experts and attributed to the end of the recession rather than any crackdown.

Judicial trends in California, on the other hand, have come under increasing scrutiny, especially in the wake of the O.J. Simpson trial, which focused national attention on defence lawyers' antics and inadequate prosecution procedures. "The behaviour we see in courtrooms in this state would never be tolerated elsewhere, and certainly not by me," says one federal appeals judge who sits in 11 western states.

Delaying tactics, arbitrary rejections of jurors, specious arguments and "a total lack of respect" for the person on the bench and procedures are now commonplace in Californian courts, he says.

Judge Reinhardt, who this month described last year's O.J. Simpson verdict as "astonishing", was fiercely critical of the prosecution's handling of the case. They had become rich and gained celebrity status on the basis of a lost case "which most people thought could not possibly be lost", he told the Beverly Hills Bar Association.

That on the basis of this trial they are held out at expert practitioners, role models and examples of dedicated public servants "simply defies the imagination," he said.

Politicians eager to satisfy popular demands for retribution, but not to levy taxes necessary for prosecution and imprisonment of criminals, have also been accused of depriving the non-criminal branch of the judiciary of necessary resources.

A recent hearing in San Mateo County was told that although 45 per cent of the superior court's case load comprised family and other non-criminal cases, 87 per cent of available finances was spent on criminal proceedings.

The financial effects have been even more striking in Los Angeles, source of 40 per cent of the state's "three strikes" prisoners, where prisons are crammed at 180 per cent of their intended capacity.

The local authority, which has a newly built jail standing empty for want of operating funds, is currently pleading with the state government for $170m in subsidies merely to process its backlog of more than 6,000 second- and third-strike cases awaiting trial.

At the end of April 1,655 people were serving "three strikes" sentences in California and a further 17,000 were imprisoned on extended second-strike sentences. Defence lawyers predict a flood of appeals following last week's decision, which will snarl the system even further.

The number of cases pending – and the number of people held on remand – has built up partly because people arrested for a second or third time on felony charges now routinely plead not guilty. The option of a plea bargain and a lighter sentence is no longer open and a protracted full trial is the only hope of avoiding a life behind bars.

But many three-strikers have already spent much of their lives in prison.

In courtroom jargon they are already "doing life on the instalment plan".

NEWS: THE LLOYD'S SAGA

Mix of greed and catastrophe ended in grief

Lloyd's struggle for its future enters the final chapter this week. Names have been sent details of the recovery plan and five traumatic years may be about to result in one of the biggest corporate turnarounds

The story of how Lloyd's of London ran up losses of more than £8bn, reported in the past five years, covers most human failings: greed, recklessness, incompetence, anger and malice are all there in good measure.

Pain and grief, too, have been inflicted on many of Lloyd's 34,000 Names – the individuals whose assets have traditionally supported the insurance market. Future social historians will look back on the impoverishment of British middle-class families drawn, knowingly or unwittingly, into the Lloyd's nightmare.

At the root of the problems is the unique structure of the 300-year-old insurance market. Since its establishment in Edward Lloyd's City of London coffee house in the 17th century, Lloyd's has encouraged entrepreneurs and gentleman buccaneers prepared to take big risks.

In any insurance business, rewards can be great; if there are no policy claims, the insurance premium is pocketed for little effort. But when claims exceed expectations, losses mount. At Lloyd's the volatility is greater still because the market has specialised largely in insuring the biggest risks. And Names trade with unlimited liability – meaning that they are vulnerable to their last collar stud.

But there are other factors in the Lloyd's debacle. First, in the late 1980s and early 1990s, it was struck by an unprecedented succession of severe natural catastrophes, including some of the biggest storms to hit Europe, the Piper Alpha North Sea oil disaster and US hurricanes.

Lloyd's was not the only insurer affected but the way it operated exaggerated conventional difficulties. The rapid expansion of the market during the early 1980s had led to overcapacity, and in the search for business Lloyd's syndicates had "reinsured" each other – in effect, providing insurance against excessive losses. This created a "spiral" which, in the words of Mr Justice Phillips – who in October 1994 ruled in favour of the badly affected Gooda Walker group of Names – was "like a multiple game of pass the parcel".

Mr Michael Deeny, the chairman of the Gooda Walker action group, said: "The parcel turned out to be a timebomb that exploded in our faces."

A second factor explaining Lloyd's losses was the massive rise in US pollution and asbestos-related liabilities, prompted – certainly in the eyes of many Names – by weaknesses of the US judicial system, which allowed an unforeseeable escalation in damages awards, including retrospectively.

Again, Lloyd's unique structure exacerbated the problem. Because syndicates are reformed each year, a mechanism is needed to close accounts annually. This is achieved by "reinsuring" one year's account into the next – the so-called "reinsurance to close". Lloyd's reports three years in arrears but even then it is often uncertain what liabilities might still be incurred. Industrial diseases can take many years to emerge, and longer to result in court awards. That makes it difficult to judge the correct price for the reinsurance to close.

As a result, Lloyd's became a lottery. Names who were unlucky enough to join syndicates at the time when underwriters realised that massive increases were needed in their reserves found themselves facing unexpected demands for cash.

The deep suspicion of many Names is that knowledge of the asbestos problem was concealed, allowing insiders to escape big losses and leaving the flood of Names who fattened the market in the 1980s to bear the brunt.

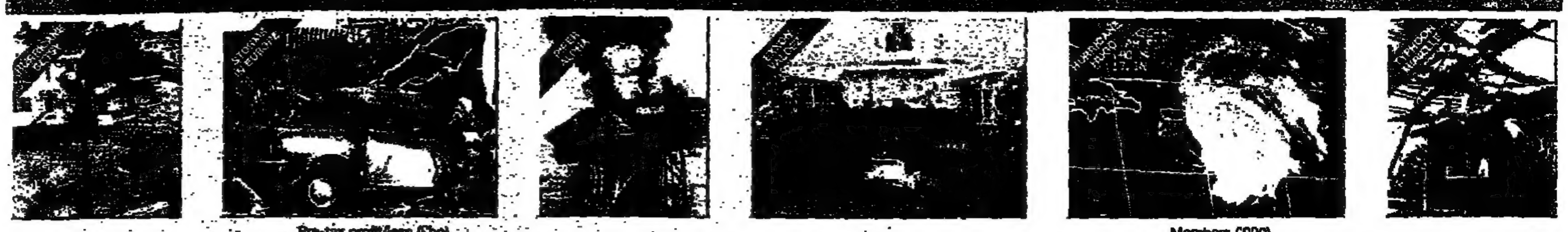
This highlights a third factor explaining Lloyd's losses – the management and regulatory failure of Lloyd's leaders which allowed greed to overtake reason. Court actions against Lloyd's central organisation has not generally succeeded but damning judgments against the agencies that ran syndicates and handled Names' affairs point to serious oversights. Professional standards were allowed to slip.

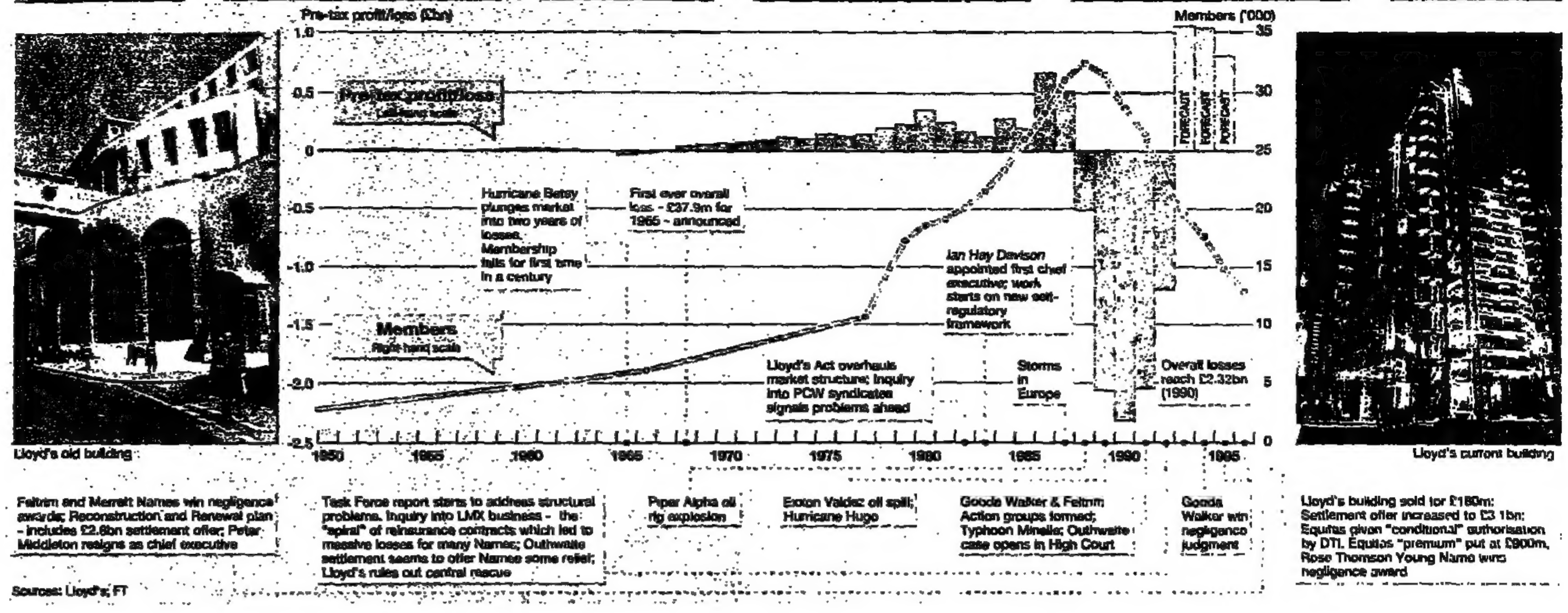
As the catalogue of failings at Lloyd's began to surface, angry Names formed themselves into action groups to mount legal claims for compensation. They also began to refuse to pay bills. A number of legal challenges were made to the market's right to collect debts and the impact built until pressure on Lloyd's finances became acute. All the evidence suggests that Lloyd's has come perilously close to being declared insolvent.

When Mr David Rowland, its chairman, unveiled the market's recovery plan in May last year, he said the alternatives were "stark". Most at Lloyd's now accept that if the plan is not approved by Names this August, it will almost certainly have to cease trading.

Ralph Atkins

Rise and fall of the insurance market





Source: Lloyd's; FT

THE PLAN – By Ralph Atkins

Complex deal wins over most of the losers

Lloyd's recovery plan, called Reconstruction & Renewal, is one of the most complex deals ever negotiated in commercial history. But the effort involved has not been without reward.

The indications are that the deal is winning wide support, at least among non-US Names. Mr Michael Deeny, a prominent representative of those worst hit by Lloyd's losses, has told Names: "The war has gone on long enough, it is time to make peace."

The reasons for the plan's complexity, and why it has a good chance of success, are twofold. First, Lloyd's realised after the failure of an earlier settlement offer in 1994, worth what now seems a measly £900m, that it was not enough simply to offer money.

The biggest worry for many of the 34,000 Names is the uncertainty over their Lloyd's liabilities. US asbestos and pollution claims could stretch decades ahead. Some 21,000 Names have stopped underwriting but have been trapped on "open" years – accounts which cannot be closed because of the uncertainties.

Second, Lloyd's has tailored the plan, and its financing, to win support from the broadest range of Names possible. That search for consensus has resulted in a plan which, in the words of one closely involved in the negotiations, "has at least 178 different faces".

At its heart is a proposal to effectively spin off "old" Lloyd's and create a new market. This involves setting up Equitas, a giant reinsurance company which Lloyd's plans to take responsibility for billions of pounds of mainly US liabilities – including the asbestos and pollution claims.

Equitas offers potentially significant economies of scale in generating income on investments and collecting on reinsurance taken out by Lloyd's syndicates to protect against big losses. More importantly for Names, it will cap their liabilities and allow them to leave the market.

Much of the funding for Equitas would come from reserves already maintained by Lloyd's syndicates. But Names would also pay a premium to Equitas to have liabilities on insurance policies sold before 1993 "reinsured".

Helping Names to pay Equitas bills are the substantial profits earned by Lloyd's recently but not yet reported under its system of accounting three years in arrears. More important, however, is a £3.1bn settlement offer which is also intended to persuade Names to drop litigation. This is crucial because the pursuit through the courts of damages is crippling debt collection.

The £3.1bn is being financed with £800m from "errors and omissions" insurers which provided insurance cover to Lloyd's agencies against damages awards. Other sources of funding are £1bn allocated from Lloyd's central resources, £270m from the sale of its building and other disposals, £440m raised by a "refundable" levy on those underwriting since 1993, a £100m contribution from insurance brokers, £115m from auditors working at Lloyd's and at least £220m from agents which run Lloyd's syndicates and look after Names' affairs. Lloyd's has also arranged a facility to borrow up to £300m.

As part of its consensus-building efforts, Lloyd's set up a Names committee to make recommendations on allocating the settlement. Members included the main "action group" leaders. This helped ensure broad support for the plan. Mr David Rowland, Lloyd's chairman, and Mr Ron Sandler, the chief executive, spent long hours with Names' leaders debating the terms of the deal. The aim has been to ensure most action groups of litigating Names fare at least as well as they would by continuing legal action. As a result, the main groups have been brought on side.

But as important in boosting the chances of success has been dramatic revisions in the cost of Equitas. Early estimates suggested the total extra premium payable by Names would be about £1.9bn. Lloyd's feared that might rise steeply. In the event, actuaries concluded that the £1.9bn was far too cautious. Latest figures suggest the Equitas premium will be more than £1bn lower.

The extra resources freed have been aimed at litigating Names and "honourable members" who have paid all their debts. Under complex proposals bolted on to the original allocation formula, 90 per cent of Names should have found their "finality bills", despatched last week, lower than March estimates. Some 12,000 Names would be paid money back. In total, Lloyd's is seeking £359m in new money.

But some Names will still face big bills and the prospect of ruin – particularly the elderly who have sold assets to meet Lloyd's cash demands.

Where Names cannot afford their bill, extra means-tested help has been made available. But Lloyd's has also drawn up plans to protect the homes and incomes of the worst affected.

Determining whether enough Names have accepted will also be complex. Lloyd's must ensure sufficient funding for Equitas and be confident that most litigation would be dropped. Much of the £3.1bn settlement offer has been pledged on the basis that legal action is halted. This makes it impossible to specify a minimum level of support required. The deadline for acceptances is August 28.

The Paying Names' Action Group, which represents those who have paid their losses, threatened yesterday to use a number of "legal options" to obstruct the recovery plan if extra help were not provided for those Names who still faced financial ruin after borrowing to fund Lloyd's activities, Ralph Atkins writes. The group says an extra £50m only may be needed to resolve its concerns. Lloyd's said any action would be contested vigorously.

THE US – By Richard Waters in New York

Anger in the states poses biggest threat

When Mr Philip Feigin, the top Colorado securities regulator, visits the home of Lloyd's of London tomorrow he will be carrying a warning.

Mr Feigin will be heading a delegation of the North American Securities Administrators' Association, a group whose members oversee the country's state-level securities laws. In common with 10 other US states, Colorado has filed a legal complaint accusing Lloyd's of unlawfully selling securities within its borders.

Now, the NASAA says, more than 20 other US states are preparing to start proceedings of their own – a move that threatens to tangle the London market further in what has already become a convoluted legal web. Taken together, the US legal actions – and the strident opposition of a sizeable proportion of American Names – represent the biggest single threat to the market's restructuring plan.

The new wave of state-level legal actions will come, says the NASAA, if Lloyd's fails to "take enough action" to meet the regulators' concerns. Just what that means is not yet clear; but it seems certain that the market's authorities will be under pressure to make further concessions to US Names in the coming weeks.

That presents Lloyd's with a dilemma. The market's executives have said they cannot treat US Names differently from those in other parts of the world. In any case, American Names are not covered by the country's securities laws, Lloyd's says, since becoming an underwriter at the market does not constitute "making an investment". This interpretation of US law has never been put to the test but could well be in the coming months.

But the tide of anger against Lloyd's is running higher in the US than it is elsewhere in the world – and many US Names have made clear that they are prepared to use the formidable US legal system to escape further liabilities. Lloyd's says that more than half of US Names support its proposals, but indicated last week that it may have to do without the support of a substantial number of Americans.

Underlying this revolt is a classic culture conflict between the old and new worlds. Many US Names are antipathetic to what they see as English high-handedness in the way they have been treated. They also claim that Lloyd's has put institutional survival above the well-being of individual Names.

"Some people [in the US] simply aren't going to co-operate with the plan," said Mr Roderick McDonald, a US Name who supports the Lloyd's proposal. "They want to bring the institution down."

At this stage the state securities regulators say they do not plan to do anything to interfere with the ability of US Names to make their own decisions about whether to accept the Lloyd's restructuring proposal. That at least clears the way for Lloyd's to put its case to Names in the US this summer.

However, the actions of the NASAA have given heart to the opponents, strengthening their hopes that, by holding out longer, they can reduce their losses.

A legal challenge on a different front has also put Lloyd's on the defensive at what is a pivotal moment. Until now, US federal courts have always upheld a market rule that requires all Lloyd's disputes to be heard in an English court. That principle could now be in danger.

The latest test of the Lloyd's rule in a federal appeals court – known as the Richards case – unexpectedly won the backing of the Securities and Exchange Commission two months ago. Americans, the federal agency said, should be able to fight for their rights in US courts.

State-level securities and insurance regulators have lined up on opposite sides over the Richards case. Insurance regulators, fearful for the solvency of some US insurers if Lloyd's were to fail, have swung behind the insurance market, while Lloyd's policyholders have also added their voice.

In one filing with the court, the United Policyholders group argues: "For well over a century, insurance regulation has been designed to protect policyholders – insurance company investors have never before been preferred over policyholders."

The NASAA, for its part, threw its weight last week behind the SEC's position.

If Americans do win their day in a US court, "it would certainly open a floodgate of litigation against Lloyd's", said the Association of Lloyd's State Chairmen, a group of Names opposed to the market's reconstruction plan.

That, for Lloyd's, could spell disaster.

The fortunate and the unfortunate tell their stories

PETER VIGGERS: *Conservative MP for Gosport since February 1974 and former Lloyd's council member.*

"I was a banker in 1972 when a colleague of mine said: 'Why don't you get involved?'. When I was a minister earning £25,000 a year it was extremely helpful to have a cheque from Lloyd's.

"It is crucial to have a members' agent you can put your trust in. I have always been cautious and careful.

"I have not had any serious problems, and that is all credit to my agent. My underwriting experience since 1973 has been constantly cautious and really quite successful. There have been some bad years.

"It has been traumatic for all of us. Everyone of us knew that if Lloyd's went down we would all be ruined. It was as simple as that. Every Lloyd's member has discussed with their wife or whatever what would happen if it went bust.

"Lloyd's is now much changed. There are different kinds of controls and regulations now."

THE DOWAGER LADY DELVES BROUGHTON: *chairs the High Premium Group, representing Names each underwriting more than £1m of business.*

"We all knew Lloyd's was high-risk; we did not know just how high. It is definitely not suited to those who depend on Lloyd's profits for school fees or their daily bread. I worked hard in choosing my syndicates. I have made mistakes and some very large losses. But I am fortunate in being able to pay up and carry on trading.

"David Rowland is doing a fantastic job. I believe the R&R plan will go through and Lloyd's is already being seen as a very attractive investment.

"The settlement offer is not fair, we always knew it could not be. It is as fair as possible considering the interests of so many groups and the limited cash available.

"I have not met one member of the High Premium Group considering stopping underwriting. The HPG works well alongside spread 'corporates' at Lloyd's."

TOM BENYON: *former Conservative MP, director of the Society of Names, representing lossmaking Names.*

"My wife and I suffered horrendous losses on the Warrilow syndicates. We couldn't believe that the cavalier attitude of our agents was an isolated example. They weren't. Three years later it became clear how bad the problems were and I helped found a number of Names action groups.

"A £3.1bn solution for Names is a huge victory. It is the best that Names are going to get. They are in the last chance saloon. The paradox is that Names have destroyed their market. The agents at Lloyd's are going to think, 'right, if that's the way you want to behave, we don't want you. We will go for corporate investors.' By the end of the century I don't think there will be any traditional Names left.

"Lloyd's affairs have taken over my life. I will be glad when it's all over. There are other things that my wife and I want to do with our lives. I have a lot of other business interests."

MARIE-LOUISE BURROWS: *chairs the Lime Street Names Action Group, whose members' average losses have exceeded £1m each. Began underwriting in 1960.*

"In 1986 my husband, who joined Lloyd's after me, got a bill for £74,000 for one of his syndicates. We thought: 'Gosh, what if we had both been on that syndicate?'.

"When we met our agent for lunch he was furious at our suggestion that he wasn't acting in our best interest. It was very acrimonious.

"When Names with the Lime Street agencies realised the scale of their losses, there was blind panic. Fear was the overriding thing. To be wiped out late in life, when you are approaching retirement, is terrible. Two of our members committed suicide.

"Lime Street Names got together to pool experiences for the first time in June 1991. I'm very worn. It ruined my marriage. It has been a traumatic experience. For me it has been easier to try to be a prop for others than to look at my own problems."

TONY WILSON: *deputy chairman, Writs Response Group, which has sought to defend Names against legal moves by Lloyd's to collect debts.*

"In the middle of 1991 when I received many cash calls for losses in the 1989 year, I realised I had made a big mistake joining Lloyd's. Now I have no money. I have paid nearly £600,000 and technically still owe them a further £900,000.

"It has taken over my life. I feel particularly bitter because I won a court judgment covering all my losses but the Lloyd's agencies' insurance cover is not there to pay the bills.

"R&R is an attempt by Lloyd's to get rid of its past problems and to be able to trade into the future. I don't think that they could care less about the Names that they have busted.

"Whether I accept will depend on what I'm required to pay. I haven't applied for the means-tested help available to the worst-hit because Names shouldn't have to rely on the charity of Lloyd's to get them out of the problems Lloyd's has created."

Government will soon announce 'Union Jack-wrapped package of arms orders'

Defence deals worry US companies

By Bernard Gray, Defence Correspondent

The UK government intends to favour British contractors when it awards more than £12bn ($18.4bn) of defence equipment work in the next few weeks. US contractors fear that they are being shut out of competitions because the UK cabinet has decided to boost domestic producers in what one Ministry of Defence official describes as a "Union Jack-wrapped package of arms orders".

The package will be marketed by ministers as the triumph of lean and efficient British manufacturing in open competition with international defence giants. Ministers have also been keen to ensure that the orders preserve manufacturing jobs and bolster British defence companies in the run-up to the general election.

Until recently the ministry had intended to announce the whole batch of orders for combat aircraft, ships and missiles on a single day just before the House of Commons rises for the summer next month. However, a debate has started between cabinet ministers about staging the announcements over the next few weeks to extract maximum political capital from the orders. A further £4bn of defence orders for submarines and missiles is likely to be placed early next year.

If several technicalities can be sorted out in time, the largest single order to be announced this summer will be the start of production for the £35bn four-nation Eurofighter programme. Manufacturing of the 250 Eurofighters for the UK will be worth about £9bn to British industry, with the first £1bn to £2bn being spent over the next 18 months on building manufacturing facilities at British Aerospace and GEC factories.

Provided final details can be agreed with industry and the other Eurofighter partners, Germany, Italy and Spain, the UK government intends to give the go-ahead for the project this summer. However, last-minute hitches could delay an announcement until parliament returns later in the year.

The other large aircraft order is for maritime patrol aircraft to replace the UK's ageing fleet of Nimrod jets. A team led by BAe has been recommended by the UK defence ministry for the contract, beating a group led by US aerospace giant Lockheed Martin, with GEC acting as the main UK subcontractor.

US contractors are also concerned that they are about to lose out in a bid to supply the Royal Air Force with precision cruise missiles. Two European teams, BAe-Matra and Daimler-Benz Aerospace-Bofors, have been asked by the British ministry to "clarify" their bids, while US contenders McDonnell Douglas and Hughes have not. Despite this, McDonnell Douglas will today cut the price of its bid for the contract, following its win in a similar US competition last week. Defence executives believe the "clarification" is a prelude to awarding the contract to a European team.

Winners likely to be in Europe

Contract	Value	Lead UK/EU contractors	Lead US contractors	Likely winners
Before Commons recess (July)				
Eurofighter production	£9bn	BAe – GEC	–	BAe – GEC, subcontractors
Maritime patrol aircraft	£2bn	BAe – Boeing – Rolls-Royce	Lockheed Martin – GEC	BAe – Boeing – Rolls-Royce
Cruise missiles	£650m	BAe – Matra Daimler-Benz Aerospace – Bofors	Hughes – McDonnell Douglas	BAe – Matra*
Anti-tank missiles	£700m	GEC Hunting	–	Hunting*
Marines' landing ships	£600m	GEC – VSEL	–	GEC – VSEL
Before 1997 gen election				
Hunter-killer submarines	£3bn	GEC – Rolls-Royce	–	GEC – Rolls-Royce
Eurofighter missiles	£900m	EU team led by BAe	Hughes	EU team led by BAe

* current leading contender

Telecoms giants buy design licences

By Alan Cane in London

The Technology Partnership, a small UK research company, has secured worldwide approval for a design breakthrough expected to halve the cost and double the recharging interval of the next generation of mobile telephones.

About 20 companies across the world have bought licences costing up to £1m ($1.54m) each for microchip and software designs developed by TTP, a contract research company based in Cambridge in eastern England. The manufacturers that have developed or are developing phones based on the technology include Toshiba of Japan, Daewoo of Korea, Hagenuk of Germany and Aselsan of Turkey.

The TTP designs are based on the GSM (Global System for Mobile Telephones) technology for digital mobile telephony which is now standard throughout Europe and much of the Asia Pacific region. Up to 100m GSM handsets are expected to be in use by the end of the decade as digital telephony replaces older analogue systems.

TTP-based handsets last for a working week without recharge, about twice as long as conventional digital phones, and cost about £100 at the factory gate, half the price of phones from companies such as Nokia or Ericsson. Shop prices are often much lower than factory gate prices because of dealer incentive payments.

Acceptance of the TTP technology has been delayed for almost 18 months by a squabble over European technical standards. However, TTP was awarded "type approval" last week by the German technical testing organisation, BZT. Acceptance by one test organisation confers universal acceptance because GSM is a European and world standard.

Dr Tony Milbourn, head of computers and communications for TTP, said the intention was not to license the technology to current leaders in digital telephony such as Nokia of Finland, Ericsson of Sweden or Motorola of the US.

The company is aiming at manufacturers anxious to compete in mobile phones but deterred by the cost of developing their own technology from scratch.

Media futures, Page 11

UK NEWS DIGEST

Car output for export up 10%

Car output for export rose 10.6 per cent, year-on-year, in May to leave the industry on course for another 20-year production peak in 1996. The export performance more than compensated for weakness in the UK market, leaving total output for the month 0.5 per cent higher at 141,393. That lifted total car output for the first five months of the year to 698,344, a 2 per cent rise over the corresponding period of 1995. Within that total, output for export was 3.4 per cent up at 363,038.

Production of commercial vehicles is also running ahead of year-ago levels, according to figures from the Office for National Statistics. May's commercial vehicle output, at 22,186 units, was 3.2 per cent ahead of May last year, with production for export 8.6 per cent higher at 9,719.

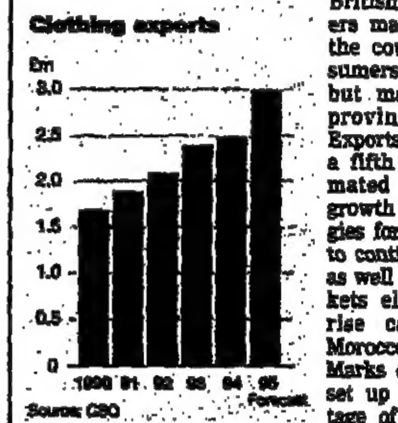
However, weakness in some UK market sectors such as heavy trucks left total commercial vehicle output for the first five months only 0.1 per cent higher, at 105,637. Production for export over the five-month period was 14.9 per cent higher, at 52,509. *John Griffiths, Industrial Staff*

Pop music may rebound

British pop music may be poised for a resurgence in north America as new acts such as Oasis and Bush succeed the "dinosaur" rockers from the 1960s and 1970s who still dominate UK music exports. Music has been one of the UK's largest sources of exports since the 1960s, but in recent years new British bands have sold poorly in North America, the world's largest music market. A study of the music industry published today by Media Research Publishing, the research consultancy, suggests that the tide may be turning. Only 25 albums from UK acts have reached the US Top 10 since 1986, and 18 singles. Almost all of these albums came from long established bands such as the Beatles and the Rolling Stones.

British bands have fared much better in North America during the opening months of this year with five UK albums reaching the US Top 10 against four in the whole of 1995. Two of the 1996 hit albums were by musicians in their 20s, (What's the Story) Morning Glory? by Oasis and 16 Stone by Bush. There has also been an improvement by British acts in the US singles chart. *Alice Rawsthorn, Consumer Industries Staff*

Rise in clothing sales to Asia



British clothing manufacturers may be depressed about the country's reluctant consumers and erratic weather, but markets elsewhere are proving much brighter. Exports of clothing jumped by a fifth last year to an estimated £3bn ($4.6bn). The growth reflects survival strategies for producers determined to continue selling in the UK as well as expansion into markets elsewhere. The largest rise came in trade with Morocco, as suppliers to the Marks & Spencer retail chain set up plants to take advantage of low labour costs. By exporting partly-finished garments to Morocco, where frills, embroidery, and other accoutrements are added, UK producers are maintaining their more labour-intensive lines in the face of fierce price competition. But the rise is not just a story of outsourcing. Sales to countries such as South Korea – which 20 years ago was cutting a swathe through the British clothing and textile industry with its cheap exports – are rising, too. The cachet of British brands, long a feature in Japan, is spreading. *Jenny Luesby, Industrial Staff*

Nuclear prospectus out soon

Executives from British Energy, the nuclear plant operator due for privatisation next month, will be making the rounds of North American institutional investors this week as preparations for the sale accelerate.

A full prospectus, due to be published on Wednesday, will include details of the price discount that will be offered to the UK public to entice retail investors to buy the shares. It will set out a broad range of valuations for the company, and electricity industry analysts say the range is likely to be £1.3bn to £1.9bn.

The government is selling 700m shares, its total holding, with up to 335m shares reserved for British retail investors. The remaining stock – up to 610m shares – will be issued in the international offer, open to investors everywhere including the UK. No discount will apply. The company has already disclosed that it intends to pay a total dividend of 13.7 pence a share this year. *Robert Corzine, Industrial Staff*

Store wars intensify

Marks and Spencer revealed yesterday that it is introducing cheap personal loans for customers who hold its charge card, in an escalation of the retail stores' "loyalty" war. The plan, which builds on M&S's existing financial services operation, is the latest attempt by a retail chain to widen its customer base through a loyalty or reward scheme.

Tesco, the leading supermarket by market share, stole a march on its rivals earlier this month when it boosted its Clubcard loyalty scheme by extending it into a highly competitive instant access deposit account. This helped force Tesco's main rival J. Sainsbury into a climbdown from its previous opposition to loyalty schemes. Sainsbury last week announced a Reward card which gives its customers Air Miles through a link with British Airways. *Martin MacConnol, Financial Staff*

Pressure grows on PM to sack agriculture minister

By Robert Peston, Political Editor

A powerful alliance of cabinet ministers and backbench Conservatives, including the deputy prime minister Mr Michael Heseltine, is putting pressure on Mr John Major, the prime minister, to sack Mr Douglas Hogg, the minister of agriculture, fisheries and food.

A decision on Mr Hogg's future is the trickiest of a series of challenges faced by Mr Major in the wake of the government's ending of the beef war at the Florence summit of European Union government heads over the weekend.

The prime minister will today try to win the confidence of his backbenchers by telling them in a House of Commons statement that the EU framework plan he agreed in Florence could lead to the lifting of the worldwide ban on British beef exports "in months rather than years".

Conservative party managers are confident that Eurosceptic Conservative MPs and those with farming constituencies will resist the temptation to criticise him for ending his policy of disrupting EU decision-making.

However, a growing number of them regard Mr Hogg as a potential liability in the negotiations with the EU on implementing the framework agreement. Their views are understood to be shared by Mr Brian Mawhinney, the Conservative party chairman, and Mr Michael Forsyth, the Scottish secretary.

One possibility, floated by a senior minister yesterday, is that Mr Hogg could replace Sir Nicholas Lyell as attorney-general. However, Mr Major has apparently ruled this out. "I am sad to say this, but Hogg must go altogether", said a senior Tory.

Speculation about Mr Hogg's position intensified yesterday when he pulled out of a BBC Radio interview just an hour before the broadcast. Government officials insisted there had been no pressure on Mr Hogg to withdraw.

Mr Major is also preparing to face a furious reaction from his MPs if, as expected, the European Court of Justice decides soon that the UK must impose a 48-hour working week. The prime minister has decided against a summary refusal to implement the ruling since this would be illegal. He hopes instead to placate Eurosceptic critics by delaying any legislation to implement the working hours directive until after the next general election.

This would give him time to lobby the EU's intergovernmental conference to prohibit the imposition in the UK of employment measures "by the back door" as health-and-safety issues. Mr Major thinks the UK should be immune from the EU's employment regulations, having secured an opt-out from the Maastricht Treaty's social chapter.

The prime minister believes that he secured an important advantage at Florence in his battle with the opposition Labour party over the parties' respective EU policies. This was the decision to prepare a draft of a new EU treaty for discussion at a summit in Dublin at the end of the year. To the surprise of his fellow government heads, he argued strongly for the early preparation of such a draft in a session on Saturday morning.

Post Office may lose monopoly of letters delivery

Financial Times Reporters

The government may abolish the Post Office's monopoly in letter delivery if there is no early sign of an end to strike action by mail workers.

The disclosure has caused great concern at the Post Office's Royal Mail offshoot, which said yesterday that an end to its monopoly would threaten its ability to charge a single price for deliveries to any part of the UK. "You need a monopoly to safeguard a universal service," a Post Office executive said.

The CWU mail workers' trade union said it was not surprised by the proposal because "the government seems to be obsessed with developing private mail services".

According to a senior minister, Mr Michael Heseltine, the deputy prime minister, has been putting pressure on the Department of Trade and Industry, which oversees the Post Office, to consider removing Royal Mail's monopoly over letters which cost less than £1 ($1.54) to deliver. "Ian Lang [the chief industry secretary] is considering the issue," the minister said. "We did not do it last week, on the basis of one day's strike, because that would have been over-reacting."

He added that if the industrial disruption became more serious, then an end to the monopoly was "highly likely". Another member of the government said there would be little point in suspending the monopoly only for a short period while industrial action was in progress.

"Unless we said it was a long-term move, there would be no incentive for couriers to invest in the infrastructure necessary to provide effective competition", he said. The options were to abandon the monopoly or order its suspension for a lengthy trial.

Last Friday's one-day strike left only 174 out of 1,500 Royal Mail delivery centres in operation. Another 24-hour strike is planned to begin at noon, local time, on Thursday.

Labour party's mergers policy worries City of London

By David Wighton and Stefan Wagstyl in London

Much of the City of London is worried that the opposition Labour party's competition policy could spell the end of the mergers and acquisitions boom. The final date for the next general election is May next year, and opinion polls continue to suggest that a Labour government will come to power for the first time since 1979.

Concern centres on Labour's proposal, repeated in the draft of its forthcoming policy document, to raise the public interest hurdle for bids referred to the competition authorities. No longer would bidders merely have to demonstrate that a deal would not operate against the public interest. They would need to show it was beneficial.

Labour

- Consider amalgamating MMC and OFT
- Prohibit cartels
- Prohibit anti-competitive practices
- Examine curbs on takeovers and mergers

Conservative

- Retain seperate MMC and OFT
- Prohibit cartels
- Strengthen OFT's existing powers to investigate and curb anti-competitive practices, but avoid full-blown legal prohibition
- Retain existing takeover and merger rules

Reform of merger regulation will be the most controversial element in Labour's competition policy. But the party will also pledge to strengthen the law against anti-competitive practices and will examine streamlining the administration of competition law by uniting the Office of Fair Trading and the Monopolies and Mergers Commission.

The proposals would make British law tougher and probably clearer. Labour believes the changes would help protect consumers and small companies from domination by big groups. But some City analysts warn that they could increase regulatory constraints.

Toughening the public interest test could block many deals, some City observers believe. "It is likely to be particularly significant in hostile bids where the target and its advisers would come up with all sorts of public interest defences in terms of jobs, investment or competition," says one investment banker.

Those looking for guidance on how public interest would be interpreted will find little enlightenment in the party's forthcoming policy document.

"In the end, much will depend on who gets the job as industry secretary," says a Labour insider. The chief industry minister now wields considerable power over the application of merger policy, and neither Labour nor the governing Conservative party has shown interest in reducing the degree of discretion.

Labour is examining the case for amalgamating the MMC with the OFT to create a unitary Competition and Consumer Standards Office. This would take sole charge of the investigations now done by the OFT and MMC, thus avoiding duplication. The government, in contrast, is reluctant to end the division of powers between OFT, MMC and the chief industry minister. Ministers argue that the three-way split prevents competition policy from being concentrated in too few hands.

The main parties also differ over the approach to anti-competitive practices such as predatory pricing. Labour would consider prohibiting such behaviour, bringing UK law into line with European practice under Articles 85 and 86 of the Treaty of Rome. British consumer groups have long lobbied for such reforms.

The government has delayed competition law reform since it first made firm proposals in the late 1980s. However, in March, it finally published a consultation paper which proposed making cartels and price-fixing agreements illegal. This would allow the authorities to ban a cartel while it is being investigated. Currently no action can normally be taken until an investigation is complete.

But ministers would not extend the principle of prohibition to anti-competitive practices, as Labour might. They accept that the British system lacks the coherence of competition policy elsewhere in Europe, where abuses and sanctions are more strictly defined. But they believe the flexibility of the British system is an advantage. The Conservatives argue the realities of competition are too complex and unpredictable to be covered by a tight framework of rules.

THIS WEEK

Le Pen's case for greater popularity

DATELINE

Paris: The courts could well influence the longer-term struggle between France's "extreme right" and "right", writes **David Buchan**

Two different legal games are being played in France. One is the campaign Mr Jean-Marie Le Pen's National Front has been waging in the courts against French newspapers dubbing it "extreme right". The other is the equally vigorous effort by the Gaullist establishment of the city of Paris to avoid being put in the dock by investigations into municipal procurement and property practices.

There is, of course, no direct link between Mr Le Pen's recourse to the courts and the Parisian Gaullists' avoidance of them. But the longer-term struggle between "the right" and "the extreme right" in France may be influenced by the outcome of these legalities.

For, to the extent that the NF wins acceptance as a mainstream patriotic party, it will eat into the support of the Gaullist RPR party. The latter has been a bulwark against the NF, often more so than its government coalition partner, the centre-right UDF. For historical reasons, the UDF tends to be more right than centre in the south of France, where it attracted the votes of ex-settlers from Algeria, the *pieds noirs*, who refused to vote for the party of General de Gaulle, the man who gave Algeria its independence.

Few people, on the centre or traditional right of French politics, have been as stalwartly anti-NF as Mr Chirac, even in his worst moments of electoral desperation; in between the two rounds of the 1988 presidential election, he refused to follow the advice of his interior minister, Mr Charles Pasqua, and make the gesture towards the NF that might have given him the edge over Francois Mitterrand.

But one reason why the NF has gained is that it has been able to hammer away at the corruption of the French political establishment, and to vaunt its own relative cleanness – with some justification – because, until recently, it had no power to abuse. Precisely because of this, the question marks still hanging over the Gaullist administration of Paris – of which Mr Chirac was mayor from 1977 to 1995 – are grist to the electoral mill not only of the Socialist opposition on the Paris city council, but potentially also to the NF. The Paris prosecutor appears likely to bury the latest probe into the city's affairs – allegations that Mr Jean Tiberi, the mayor of Paris, may have abused his past position to refurbish at considerable public expense his son's city-owned apartment.

So far, the only real territory the NF can call its own are the three southern cities it won in the 1995 municipal elections, Orange, Toulon and Marignane. This has not caused any great local political earthquakes, although the abrasive mayor of Orange has managed to tread on more toes than his NF colleagues in Toulon and Marignane. His most publicised act has been to cut off city money to the annual Orange musical festival, money which was promptly restored by the culture minister in Paris out of his own national budget. Not surprisingly, the mayor of Orange hailed this a tactical triumph of squeezing cash out of Paris. In Toulon, it was the artists who took the initiative. But when the Chateauvallon dance festival decided of its own accord it wanted no more city subsidy, the NF mayor of Toulon hailed it as a saving for the Toulonais taxpayer.

The three NF mayors have claimed success in reducing taxes (partly by curtailing spending on culture) and improving security (by hiring more local police), while they have sufficiently cautious in promoting their "French first" social policy to avoid infringing French anti-discrimination law.

In the case of Toulon, this may be the result of central government adapting to the NF rather than the other way around. In December, the government appointed Mr Jean-Charles Marchiani, a long time associate of Mr Pasqua, as préfet of the Var department; in his new role, he banned a "rap" group called NTM (standing for *Nique Ta Mère* or roughly what Oedipus is supposed to have done to his mother) from appearing at a Chateauvallon function. His move was widely criticised by many in the RPR-UDF, but not by the Toulon mayor.

But for the most part, the NF is actively searching for a cloak of respectability to enable it to widen its base. In recent months, it has set up a NF union inside the police force and the Paris RATP transport system, and has won a tiny handful (17 out of 1,500) seats in local public housing associations around the country. But to reach further into the middle ground, it is fighting a battle of symbols and words. It already makes a pitch for Jean d'Arc by holding a mass rally around her statute in Paris every May 1, and this year it has been loudly celebrating the 1,500 anniversary of the conversion of Clovis, France's first Christian king.

Now the NF wants to shed the label of "extreme right", because as Mr Le Pen complains it conjures up the image of "prewar fascist movements ... calling for violence, racism and a one-party state". It has thus sued several newspapers for using this epithet, and has had some success with judges who have awarded it a right of reply in the newspapers concerned.

But two left-leaning publications, Libèration and Nouvel Observateur, countered this week by printing interviews or appeals with dozens of politicians – of the right and centre as well as left – describing the NF as "extreme right". The political terms of "left" and "right" come to us, of course, from the French Revolution. As Mr Rênè Remond, a distinguished historian, said this week, as long as one keeps plotting political positions along a left-right axis, "there will always be an extreme right, and it happens that the NF occupies this position".

PEOPLE

Sparks fly as Henkel lights touchpaper

Wolfgang Münchau on the uncompromising stance of the president of the Federation of German Industry

Hans-Olaf Henkel: infuriated Germany's trade unions

Few public figures in Germany are as divisive as Mr Hans-Olaf Henkel, the president of the Federation of German Industry (BDI).

As head of IBM Germany in the late 1980s and early 1990s, he pulled his company out of the collective regional wage bargaining process and made Sunday a regular working day, infuriating local trade unionists and priests.

Over 18 months ago he traded his job at IBM for the presidency of the BDI, and has since been attacking the welfare state with ferocity.

Now aged 56, he ranks as one of the most libertarian critics of the German social market economy in its current guise.

Speaking at the BDI's annual congress last week he predicted that Germany would lose out against international competitors, unless it reverted to its entrepreneurial roots and unless it reduced the size of the state by cutting taxes and social spending. "Globalisation means that our foreign customers are no longer prepared to pay for German extravagance, such as old age care insurance, high absentee levels and high pension contributions," he said. To add insult to injury, he upheld Britain as an example of sound economic management. In a reference to the leader of the British Labour Party, who attended as a guest, he said that "unemployment in Tony Blair's country has gone down from its peak in the 1980s by 20 per cent, while in western Germany it has gone up by 10 per cent."

Comments like these make his opponents in the German labour movement cringe. His critics suspect him of conspiring to sabotage Germany's much praised consensus model. Even Chancellor Helmut Kohl has let it be known that he views Mr Henkel as too extreme.

One of his most frequent targets is the trade unions. In a country where trade unions are deeply rooted in the industrial fabric of society and where they have retained a virtual monopoly in the wage bargaining process, Mr Henkel has no qualms about saying that the trade union movement is in terminal decline, here and elsewhere.

At a time when German popular sentiment towards Britain is almost as low as it has ever been because of the row over BSE disease in cattle, it takes a dare-devil temperament to recommend Britain as a good example from which "we could learn a great deal".

Germans have grown accustomed to regarding their own system as more successful than the laissez-faire economies of Britain and the US, even if statistical evidence suggests otherwise.

Perhaps least sensitive of all are his repeated assertions that German companies will move abroad in increasing numbers unless the government cuts corporation taxes and employers' social security contributions.

All this may read harshly in print, but it looks and sounds even harsher on television because Mr Henkel rarely smiles, he has a penetrating stare, and he speaks with an austere Hamburg accent.

Yet, while it is difficult to like his public persona, his views closely reflect those of German industry, whose leaders are growing increasingly restless over the economic direction the country has taken. This is especially true of the German Mittelstand, the sector of mid-sized companies which has been particular hurt in the recent double-dip recession. It has turned almost militant in its opposition to the welfare state.

With his big-business background, Mr Henkel is not a classic Mittelstand lobbyist. Yet he is still the most outspoken representative the Mittelstand has at the moment.

Even Mr Kohl appears persuaded by some of the arguments, admitting openly that the country's competitiveness is under threat. The chancellor now insists that there are no alternatives to his policies of thrift. He appears determined, at least so far, to make only minor modifications, despite increasing hostility from the trade unions.

Mr Kohl's mild concerns about the country's future, however, bear no comparison with Mr Henkel's sense of apocalypse. In a recent interview with this newspaper, Mr Henkel painted a picture of a country in decline through complacency and decadence.

He described the risk aversion of german youths as "the consequence of a complete and utter over indulgence of the working population, which was brought about by the unions and a whole generation of social affairs politicians. If you ask parents today about what their sons and daughters should do after they leave university they will mention the public sector first, and companies only second. This is because the public sector appears to be a safer employer. If this safety did not exist, we would have had a lot more of the pioneering spirit that we had right after the war."

Having spent many years in the US, Mr Henkel appears to have assimilated Anglo-Saxon attitudes, especially attitudes towards risk and reward, which most Germans would view with a sense of alienation. What is perhaps most unsettling to many is Mr Henkel's argument that the market is capable of supplying many of the welfare policies that were previously provided under complex tripartite arrangements between government, unions and employers.

"Trade unions are in decline worldwide," he said in the interview a few weeks ago. "There are several reasons: for one, each businessman knows that he can only survive if he conducts a progressive personnel policy. The second reason is that much of what the unions have fought is nowadays enshrined in law."

The most important reason, however, he said is that "in the modern world the role of the individual is strengthening. People want less determination by others, even less co-determination. They want self-determination, and I believe a spirit of freedom is presently running through the western democracies."

He leaves no doubt that his message goes beyond the usual call for tax cuts, more flexible working hours and the other demands which industrialists regularly put forward. Mr Henkel's critique challenges the politics of consensus on which post-war German society has rested.

He may have helped spark a debate about the kind of society and economy Germany wants. But Mr Henkel's views lack broad political support. Germany does not yet appear ready to dump its social market economy, let alone adopt someone else's system.

Perhaps the "spirit of freedom" has not permeated the country to quite the extent that Mr Henkel would have liked.

N NAMES IN THE NEWS

Leng uses shock tactics to gain results at Laporte

Mr Jim Leng has instigated some drastic action at the UK's fourth largest chemicals company, Laporte, since taking over as chief executive last October, writes Jenny Luesby.

With three appointments last week, he has now replaced all the executive directors. He has made restructuring provisions of £88.7m ($135.7m), announced 300 redundancies and promised to dispose of 10 per cent of the company.

Mr Leng, 50, is widely credited by the City with having reversed the fortunes of Low & Bonar, the packaging company. However, analysts who viewed Laporte as a solid performer, have been shocked at the scale of his latest actions.

Mr Leng argues his programme will add £10m to profits through reduced costs, and set the company on a path of double-digit profit growth. Boosted by non-trading windfalls, and suffering weak demand and falling prices, the group was anyway less profitable than it seemed: prompting a profit warning last December.

The problems Mr Leng has really set out to address concern the group's strategy and management.

Laporte's management style has not changed as the group expanded internationally. When Mr Leng called his managers together for a three-day meeting at Gleneagles, in May, to discuss strategy and "harmonise their business plans", it was the first such meeting the group had ever had. Until the appointment last week of Mr Michael Kenny, of US chemical company Church & Dwight, Laporte was without an executive to co-ordinate activities in the US, yet more than a third of group sales were there.

It had also acquired non-core businesses which accounted for 11 per cent of sales last year but just 4 per cent of profits. These are now going, says Mr Leng. The changes have been shocking, he says, but what the group has gained is clarity. And the results will feed through to profits within months.

Chung squares up for political goal

Next to its president Mr Joao Havelange, few figures are so prominent in the affairs of Fifa, world football's governing body, as Mr Chung Mong Joon, a member of the organisations' executive committee and head of the South Korean Football Association, writes Jimmy Burns.

At the beginning of next month, a three-man Fifa study group will meet in Zurich to begin to see how best the organisation can implement its extraordinary decision to have the 2002 World Cup co-hosted by South Korea and Japan.

Since joining the Fifa executive two years ago, the 47-year-old Mr Chung has lobbied intensely to have the World Cup hosted in his country. He mounted a very effective counter-offensive against the bid from Japan, which was favoured by the long-serving Havelange.

Last December, Chung picked up on calls for greater democracy within Fifa, by publicly clashing with the autocratic Havelange and claiming that TV and marketing contracts worth millions of dollars were being negotiated by "too few people behind closed doors".

Japan and South Korea have accused each other of buying votes as part of their bids, but Mr Chung is used to political mud slinging.

In 1992 Chung was linked together with his father, the founder of the powerful Hyundai group, to allegations that the family was syphoning off money from the conglomerate to fund a bid for the presidency of the country.

Chung survived as an elected MP and 'adviser' to Hyundai shipbuilding interests. He continues to have his family firm behind him, while making no bones about wanting to use the publicity generated within Fifa to further his political career.

Stephanie Flanders · Economics Notebook

If Emu, then ERM II

Preparations are under way for dealing with Emu's "ins" and "outs"

UK officials still say "if" when they talk about European monetary unification. Their Continental colleagues say when, and are preparing for life after Emu accordingly.

One of the most important post-Emu issues, discussed briefly at the EU summit in Florence, is how to cope with a Europe of "ins" and "outs". If, and when, Emu takes place, a good many EU countries will not take part. Yet the Maastricht treaty is more or less silent on the principles that should govern the relations between these outsiders and the Euro.

It does state that the "outs" must treat their exchange rate policy as a "matter of common interest"; and, more awkwardly, that in order to qualify for Emu a country must observe "the normal fluctuation margins of the European exchange rate mechanism. ...without severe tensions for at least two years". I say awkwardly because, as things stand, the European Monetary System – and with it the ERM – will automatically cease to exist the day the Euro is born.

Combine these two conditions, says Hans Tietmeyer, the president of the Bundesbank, and you have a strong case for a new ERM; both to ensure the stability of Emu and leave the way open for others to join. Only an ERM-style arrangement, in his view, would reassure Emu members that they will not be subject to further, divisive "competitive devaluations" against the Euro by non-members.

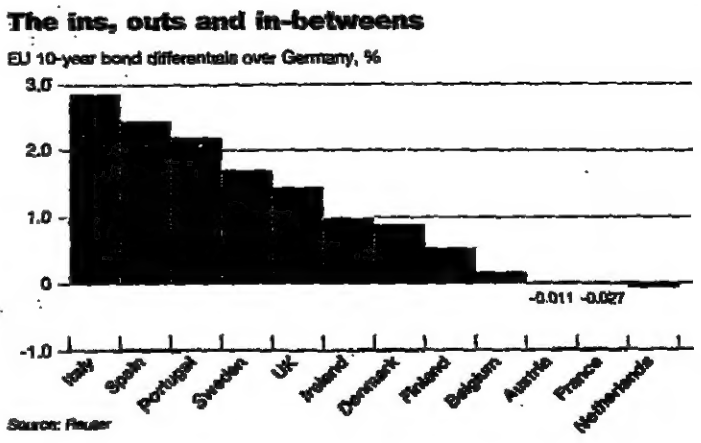
A new ERM, in turn, would allow late entrants to comply with the exchange rate conditions somewhat absent-mindedly agreed in Maastricht. With lower interest rates inside the ERM, the "pre-ins" might also find it easier to achieve the criteria for public borrowing and the national debt.

British officials are against forcing a new ERM on all the countries left outside Emu, for perfectly respectable reasons. As Eddie George, governor of the Bank of England, pointed out to the House of Lords Select Committee on the EU (whose report on "ins" and "outs" was published last week), the single market needs rough real exchange rate stability to function most effectively. But, as the 1992 debacle showed, a nominal exchange rate peg is neither a necessary – nor a sufficient – condition for achieving this. The debate, argued Mr George, was really about how to maintain "a certain degree of convergence" between the "ins" and the "outs". For some countries, this might mean a tight exchange rate link with the Euro. But you could achieve the same end simply by every country agreeing to pursue a domestic inflation target, since this would also tend to rule out large devaluations, "competitive" or otherwise.

The UK has argued that the exchange rate convergence criterion should simply be ignored, on the grounds that the ERM has changed beyond recognition since the treaty was signed. Kenneth Clarke, the UK chancellor, has won this latter argument, for now at least. His European colleagues recently agreed to suspend judgment on the question of how to apply the Emu exchange rate criteria until the middle of 1998. But they have otherwise largely ignored the UK's objections in plotting the shape of ERM II.

The ins, outs and in-betweens

EU 10-year bond differentials over Germany, %



Source: Reuter

Alexandre Lamfalussy, president of the European Monetary Institute, presented a report on the new ERM at Florence. The plan is to agree the broad outline of the new system at the informal meeting of finance ministers in Dublin in September, ready for final agreement by heads of government at the Dublin summit in December.

Mr Lamfalussy, previewing the EMI report's conclusions in a speech in London last week, claimed there was now broad agreement on the new system's key features. On the surface, it would look similar to the present one, featuring relatively wide fluctuation margins around central rates. There might be stricter, tailor-made, arrangements for countries on the verge of Emu entry.

There will, however, be some key differences, both in the European Central Bank's obligation to support member currencies, and the agreeing of changes to the central rates. "Marginal intervention" to support currencies at the edge of the wide bands, would be automatic. But Mr Lamfalussy said that the ECB could not be committed to intervening where this might undermine its duty to pursue price stability in the Euro area.

He envisages some form of "opt-out clause" whereby the ECB could stop supporting a currency, thereby triggering a readjustment. Ideally, however, the process would be "pre-emptive", with the ECB, or the members concerned, deciding on realignments before the need for marginal intervention arose.

Mr Teitmeyer and others are keen to give the ECB the right to demand re-adjustments, on the grounds that it would "depoliticise" the realignment process. This argument has a long history. In truth, devaluations will *always* be political; the question is whether governments, or central banks, take responsibility for them.

Back in 1987, Erik Hoffmeyer, the governor of the Danish Central Bank, persuaded his European colleagues on the board of the Bank of International Settlements *not* to transfer responsibility for ERM realignments from governments to central banks. His winning argument was that it would encourage prime ministers and finance ministers to wash their hands of hard adjustments. Mr Lamfalussy and his colleagues will have to ensure that the new system does not run the same risk. Finally, and most fundamentally, the new ERM will be formally asymmetric, with the Euro playing the role of anchor. In the event of conflicts, the onus will be on outsiders to bring their policies into line with the Euro bloc, rather than the other way round.

The UK – and a few other countries – have been unhappy about having a strictly asymmetric system. Why, they wonder, should countries who have decided not to join Emu be nonetheless beholden to the ECB in formulating domestic economic policies?

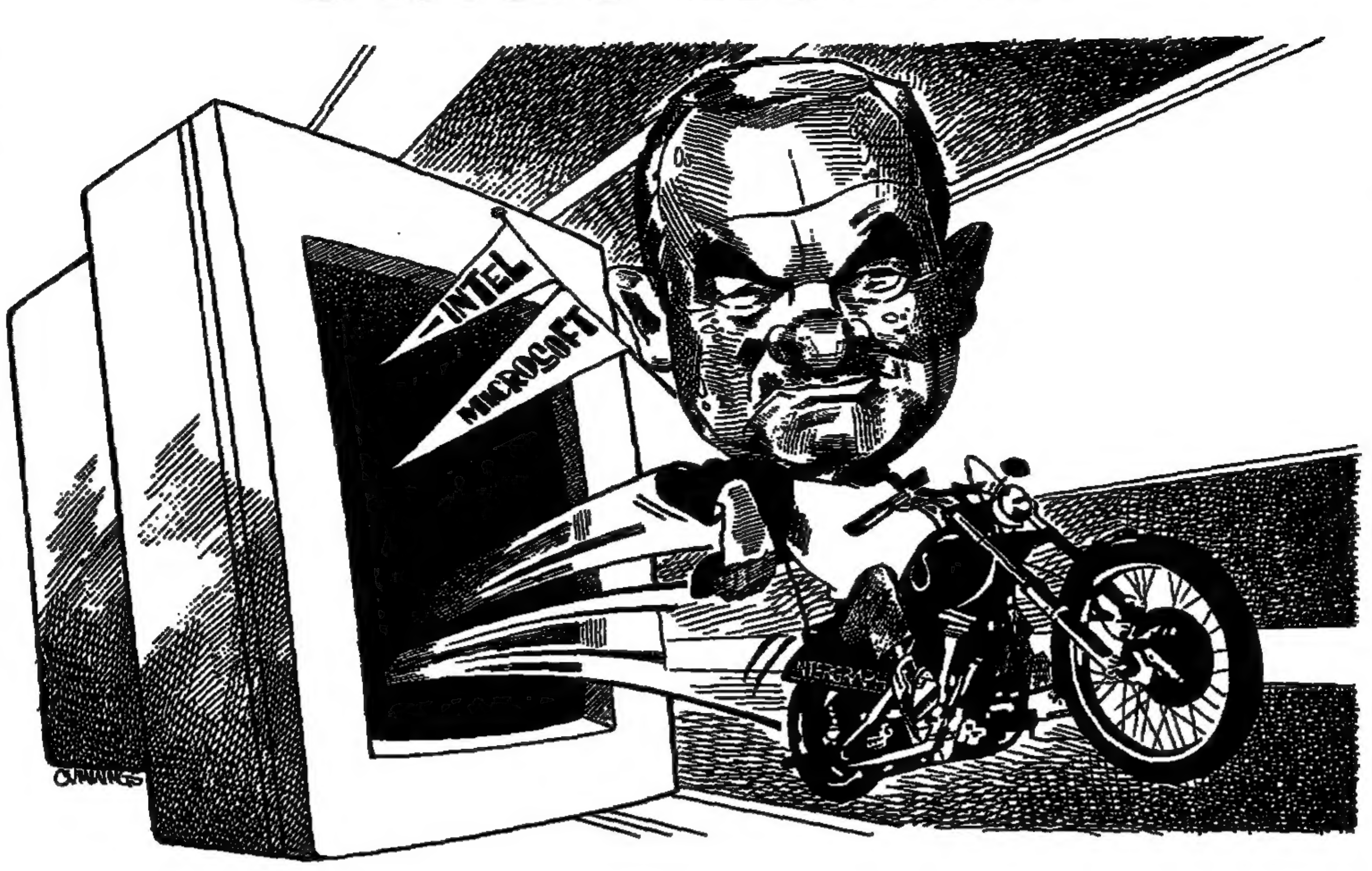
This argument makes sense for countries that have chosen to be "outs". Mr Lamfalussy says that outsider currencies, "almost by definition", will tend to be weaker than the Euro, since they would generally have failed to meet the Maastricht convergence criteria. But the same does not necessarily apply to the two "opt-out" countries, the UK and Denmark.

If Emu happens, there will be an ERM II. And, whether the UK likes it or not, the Euro will be the anchor currency. That much is clear. Whether the system will be able to accommodate the "ins", the "pre-ins" *and* the "outs" is a lot more doubtful.

MANAGEMENT

Intergraph has undergone a painful restructuring and now must prove that it was all worthwhile, says **Andrew Baxter**

The long road to battle fitness



Jim Meadlock stretches back in his chair and contemplates with a rueful smile his company's fortunes in the Chinese software market. "We've sold more electronics seats [individual software copies] there than any other company," he says. "But we don't make a dime – they are all stolen."

For Meadlock, chairman and chief executive of Intergraph, software piracy is a minor irritant compared with some of the problems he has had to grapple with in recent years. The Alabama-based technical computing concern has had to change virtually its entire product range over the past four years, introduce a new organisational structure – and try to keep its customers happy in the process.

Now, after three years of painful restructuring and 12 consecutive quarters of net losses totalling $231m (£150m), the company believes it has turned the corner. With a range of new products just released, Intergraph is getting serious about boosting its sales and producing the kind of profits that, it hopes, will make long-suffering shareholders happy too.

It is also coming to grips with changing its culture. Marketing, once almost a dirty word at a company that has long been "technology-led" and believed its products were too good to need much advertising, is the new flavour of the month. At Intergraph UK, engineering and technology functions had the high ground for years, says Roger Hill, recruited last year as the Swindon-based unit's managing director. "You had to have failed at something else to be a salesman."

Intergraph is something of an oddity among US IT companies. It is not based in Silicon Valley or Massachusetts. Its chief executive is a sober-suited, unpretentious man who puts his feet up on the desk during meetings and speaks, more or less, in plain English – the antithesis of the younger-generation IT executives with their pony tails and nerdy technospeak.

Few companies of its size (annual sales of $1bn) in such an image-conscious industry are less well-known outside their own customer base – the technical professionals in industry and government who buy Intergraph's workstations, servers and applications software to support everything from product modelling to geographic mapping and data management.

Within this group, though, there is a loyalty to Intergraph akin to that held by Macintosh users for Apple. Over the years, this loyalty has been nurtured through Intergraph's support of a very active worldwide user group, whose annual shindigs in its home town of Huntsville are an opportunity for the company and its customers to cement relationships.

Most of the sideshows at this year's conference, held last month, were strictly for the technically-minded. But there were occasional lighter moments in the main auditorium, notably the rare sight of Meadlock appearing on screen at the controls of a Harley-Davidson, revving up as if ready to head off into the desert with a triumphant cry of "Smokin'!"

There have been few laughs recently for Intergraph employees, but thanks to the change of strategy in 1992 that could alter.

At a time when the IT industry was rapidly moving towards an open systems environment, Intergraph found itself saddled with workstations based on its own Clipper microprocessor, and software solutions that ran only on these workstations via an operating system called Clix, a derivative of the Unix operating system widely used in industry.

After one stillborn attempt in 1988 to shed its proprietary image, Meadlock and his team finally decided four years later to switch to Intel microprocessors, to "port" or adapt most of Intergraph's applications software to Microsoft's recently introduced Windows NT operating system, and to develop a range of new products to run on it too.

That switch was mirrored by other workstation suppliers, but it was harder for Intergraph because the company had to adapt its software at the same time. Meadlock admits the transformation "has taken longer than we thought it would, so that has added to the cost. We're probably a year late, at least with the new products."

Halfway through the process, says Meadlock, Intergraph agonised over whether or not to redo much of the work already completed, so that Microsoft's "object-linking and embedding" software (OLE) could be taken into the world of 3D product design. Eventually it decided it should.

One of the challenges was to keep clients happy. Extra costs were incurred, points out Larry Laster, chief financial officer, to ensure that existing customers stayed with Intergraph and were not left in the lurch. "We had to develop interoperability products so that customers could make the transition from Unix to NT."

The timing, moreover, was risky. While Intel chips were already dominating the industry in 1992, for instance, Windows NT was in its infancy and has only picked up momentum in the past year.

Meadlock maintains that "fundamentally, in terms of when we did it, and what we did, we were right" and few in the IT industry would bet against a strategy which has involved teaming up with Microsoft and Intel. "It's remarkable that a billion-dollar company with a history of commitment to different technologies can take three years out, bite the bullet and change its strategy," says Richard Chu, analyst at Boston-based Cowen & Co. He points out that the changes would have been much easier for a start up company.

Chu says he is not surprised the transformation has taken longer than expected. "It's not just a question of writing new coding for the software, it takes time to communicate the changes to users; I am not sure that they have yet been fully accepted."

While Intergraph was grappling with its technology challenge, other clouds were gathering. Margins were being squeezed relentlessly on hardware, and at the beginning of last year, the company lost its exclusive right to distribute a software product called MicroStation, the "graphics engine" of many of its applications.

In response to these pressures, and in preparation for the completion of the product changes, the company has been reorganised into five business units – hardware, software, and the federal (government business), public safety and electronics markets.

This belatedly followed the widespread move away from functional organisations by companies in a variety of industries, in an attempt to make individual businesses more responsive and profit-oriented. For Intergraph, it is particularly important as it decouples the software and hardware businesses. "They could be totally different entities if they chose to be," says Chu.

Meadlock believes the advantages of IT companies producing both software and hardware outweigh the disadvantages, but it usually makes more commercial sense to sell them independently, particularly in an era when most software is not tied to proprietary hardware.

This year, for example, Intergraph's electronics design automation software business has even been formed into a subsidiary, VeriBest, to separate it further from its parent. "All its competitors were totally dedicated to the electronics market," says Meadlock. "Our salespeople were saying it hurt them to be part of Intergraph."

For all the changes at Intergraph, however, revenues since 1993 have stuck doggedly at just over $1bn a year, and Meadlock says the company has reached the point where it needs to increase them. There may be some "tweaking here and there" to further reduce costs, says Laster, but with the workforce down from 10,600 in mid-1992 to 8,400 "we've got the right size of company. Sales have to grow to fit that."

Meadlock's target for Intergraph's hardware business alone is $1bn of sales by 1998. It's a volume business, he says, and "if you can't reach $1bn, you're nowhere". According to some observers, though, that would still be barely big enough to compete effectively in a commodity business.

At least, however, Intergraph has given itself the opportunity to exploit its new business structure. Marketing has long been its Achilles' heel, but little could be done to beef it up while the product range was in a state of flux.

In the past few months, Intergraph has launched a stream of new products to build on the framework provided by the upheaval of the past three years, including graphics workstations, document management systems and Web servers.

Two computer-aided design (Cad) software products released in the past few weeks, Solid Edge and Imagineer, are particularly important as the first of a new family using Intergraph's "Jupiter" technology, whose features include reduced duplication between the functions of the application software and those already available on NT.

The new marketing model was designed by Manfred Wittler, Intergraph's executive vice-president with responsibility for European and American sales. Wittler hired Roger Hill, who has moved quickly to reshape the UK subsidiary since he arrived in July.

Using the new business structure as a blueprint, Hill has recruited managers from outside the company to run four new self-contained vertically-integrated business units. Some 30 senior people have left the company, including a number who, it was felt, could not accept the new approach.

A key task, says Hill, has been to develop new sales channels, in particular "indirect" or independently owned channels which previously accounted for only 10-15 per cent of sales. Hill aims to boost that to 35-40 per cent this year, helped by recent alliances with systems integrators and consultants.

"Moving from proprietary products through Unix to NT, you end up reducing the price point," he says. "So you need to reach the customer through infinitely variable forms of distribution." Imagineer, for example, is a 2D drafting package and integration tool which is aimed at engineers of all kinds, but is priced at only £398 in the UK – too low to support an expensive company-owned sales force.

Unfortunately, the new era at Intergraph has got off to a shaky start. Having clawed its way back into the black in the fourth quarter of 1995, the company lost $8.4m in the first three months of 1996, due at least in part to a shortfall in expected software revenues because Imagineer and Solid Edge were not released until April. Worryingly, some analysts also attributed the loss to slower-than expected acceptance of Windows NT in the technical market, where Unix rules.

But Meadlock is convinced that Intergraph will be in the black for 1996 as a whole, and Laster says a return to profit is not a matter of "if" but "when". Both can take heart from the performance of Intergraph UK, where the new strategy seems to be working already. After losing money through most of 1995, the subsidiary has been running at a profit since November.

Call in the corporate gumshoes

Lucy Kellaway

If you were engaged in a dastardly act of industrial espionage you would make some effort to cover your tracks. You would shred the evidence, burn it, plant it on someone else. But you wouldn't leave it in your dustbin at home ready for the corporate gumshoes to find it. Or would you?

Last week Kroll Associates, the private investigators, had to look no further than the dustbin of Roy Tazzyman, Davy International's former chief executive, to find some troublesome papers. Tazzyman angrily denies any impropriety and legal proceedings are under way but the episode makes one wonder whether the average corporate wrongdoer is not so sophisticated after all.

That is certainly not the impression created by a bizarre publication from a Dutch outfit called Hoffmann Investigations. It contains case after case in which employees have gone to incredible lengths to cover up their antics, which include nicking champagne from the boss's fridge, decorating the family house on the company and more serious large-scale embezzlement. Indeed after reading 12 pages of these antics it is hard not to start suspecting all your colleagues. Why does your team leader work even later than you? Is it because he is diligent, or is he up to something?

According to Hoffman Investigations, there is no point creating tighter internal controls. Instead it says managers should pretend to be asleep, encourage the fraudsters to get careless, and hire a private detective to hunt them out. A self-serving argument, if ever there was one.

There is a better way of dealing with corporate misdeeds at work: make your employees feel happy and properly valued so that they are more likely to stay straight in the first place.

Did you go home on time on Friday? What did it feel like? Nice? I go home on time every day, week in week out. This, I gather from the "facts" wheeled out to support last week's action, makes me unique. According to a survey by Hays Accountancy Personnel eight out of 10 British workers said they never leave work on time, while not a single respondent admitted to leaving always on time.

So I am well placed to tell you what going home on time every day feels like: it is not as great as it is cracked up to be. In fact the necessity of leaving the office at a particular time (as thousands of parents do who have to collect a child/relieve a childminder) is pretty stressful. By comparison, the ability to stay late seems like a luxury.

This does not mean that Go Home on Time Day was misguided; just that the overwork lobby overplays its hand. The figures produced by Hays are ludicrous – you only need to wedge yourself on to a commuter train at 6pm to see how many people do leave promptly.

But whatever the numbers, it is true that too many people do work too hard. Some of them work unnecessarily. Some of them suffer stress as a result. And for some this leads to strife at home. Yet it would be wrong to conclude that overwork is always bad. Some people love working hard, and so long as they are happy, I can't see a problem.

First was Tony Martin. Now Nowell Stebbing. Both are senior UK biotech executives who have sued their former employers for unfair dismissal. This could well be the beginning of a trend. Hardly a day passes without the news that another chief executive has been fired from his job. Occasionally these people have mucked up in a royal way. More often, though, their departure is a more subjective matter. The pressure on leading executives has never been greater: if they are deemed by shareholders not to be delivering enough profit, or if they have fallen out with fellow directors then they must go. Some of these dismissals may well be "unfair", but that does not mean that the sacked bosses deserve much sympathy. The risk of losing your job is part of the package of being a top executive. Just as the rewards of the job have risen, so have the risks. And that is what is called a market.

Last week I singled out the annual reports of Hugo Boss and Origin. It now appears the Continent is awash with equally gimmicky reports. Take Ares Serono, the Swiss drugs group. The cover features a ballon race on a cardboard wheel and bears the slogan "Progress is like the wind, nothing can stop it". On the contrary: the point about corporate progress is that everything and anything is permanently conspiring to stop it, which is why running a company is such a nightmare.

Worse is the statement from the vice-chairman which begins: "Where is beauty? Why are the clouds beautiful? Because they change but never change." It is all very well to write about beauty if you are Gerard Manley Hopkins, but Fabio Bertarelli should stick to his knitting, or to his recombinant DNA technology, as the case may be.

Co-op disaster plan in action

It was just another Saturday morning for around 200 staff at the headquarters of the Co-operative Bank in Balloon Street, Manchester. By mid-morning, however, there were reports of a bomb scare in the city centre. Police began evacuating shops and offices around the Arndale shopping centre. Just 250 yards away, the staff of the Co-op bank were told to stay indoors.

When the blast came at 11.15am, the Co-op was just one of dozens of city centre offices rocked by the 1,000lb explosion. Part of the van which had held the IRA's bomb landed in the roof garden on the second floor of the Co-op's building. But the bank had survived surprisingly well. While ceiling tiles fell on to staff inside, no one was injured by the blast.

The bank's security staff immediately launched the company's well-rehearsed emergency procedures. After the last IRA bomb in Manchester four years ago, the bank had decided to write a disaster manual which it rehearsed and refined three times a year. Led by Tony Britten, head of security, and Walter Armstrong, head of property services, the emergency plans were put straight into action.

Terry Thomas, managing director, says: "They carried more power than myself or any member of the executive team because they had the plans. One of the first decisions we made was to re-confirm their power and to follow the manual religiously."

Police sealed the main shopping streets immediately and the bank contacted around 20 team leaders to set up a crisis team the following day in Salford. Their key task was to spread communications throughout the bank's 700 staff as quickly as possible. Within 24 hours team leaders had contacted staff and important corporate customers informing them of the emergency plans.

Over the weekend of the bombing, computers were transferred to alternative offices, allowing crucial systems to be set up quickly in other Co-op offices in Stockport, Salford and Skelmersdale. Around 400 staff were told to stay at home, while the remainder of the headquarters' employees made arrangements to work elsewhere. A freephone telephone line for staff helped to maintain the flow of news from the bank's crisis team.

By Monday – less than 48 hours after the bomb – it was clear that the emergency procedures had worked. Within days, essential departments were moving back into the building, and by Thursday the branch was open once more to retail customers. Today the headquarters will be fully operational again.

A thorough de-briefing will examine how the disaster plans can be improved. But for Terry Thomas, the bomb has emphasised not just the importance of the well-rehearsed emergency plans or the value of having portable computers which can be moved to different sites. "The most critical thing is the people," he says.

"It is the morale of your troops. We have high morale in our bank because we are capturing market share and not laying people off. What is vital is the degree to which they identify with your objectives when something like this happens. You cannot create morale after the bomb has gone off."

Richard Wolffe

The Dealing with Disability series will continue next week.

FINANCIAL TIMES

COMPANIES & MARKETS

Monday June 24 1996

Trumpf boosts German machinery sector

By Peter Marsh in Stuttgart

Trumpf, Europe's largest machine tool company, has injected a note of optimism into *Europe's depressed* machinery sector by announcing a large rise in profits for the company's financial year ending next weekend.

Mr Berthold Leibinger, president and majority shareholder in the privately owned company, said pre-tax profits in the year ending June 30 would be "more than" 18 per cent higher than last year's DM55.8m, implying they would be in the region of DM65m to DM70m ($45m).

He also announced Trumpf would start a manufacturing venture in Singapore by the end of this year, and warned his fellow German industrialists they would have to "learn to fight" against some of the rigidities in the country's social system if Germany's business fortunes were to revive.

Mr Leibinger, in an interview with the FT, was speaking against a background of gloom in the German machinery industry, which has been hit by a weakening German economy in the first six months of this year.

The VDW, the German machine tool association, has recently cut its growth forecast for 1996, prompting the European machine tool sector to reduce its growth projections for the year – which companies had been hoping would provide a second year of strong rebound after a bleak period in the early 1990s. Germany's machine tool industry *has combined sales of about DM12bn*, making it the largest in Europe.

Mr Leibinger said sales by Trumpf in the current financial year were likely to be about DM930m, 18 per cent up on the previous year's DM784m.

Mr Leibinger joined Trumpf in 1950 as an apprentice and later took over the main stake in the company, which is *based near Stuttgart*. He sits on the advisory boards of Deutsche Bank and BMW, the car company.

He said his company's recent growth had occurred partly because it had been "lucky" to be selling systems that suited growing international requirements for flexibility and accuracy in production equipment.

About 80 per cent of Trumpf's revenues come from punching and cutting machines based on lasers as opposed to conventional metal cutting equipment.

Unlike its main competitors Trumpf makes its own lasers rather than buying them from outside suppliers.

Trumpf gains 60 per cent of its sales from outside Germany. It earns 8 per cent of its revenues from east Asia and hopes to increase this proportion through a new manufacturing operation in Singapore, in which it will have the majority stake, in a joint venture with Excel, a Singapore *machinery company.*

Eurotunnel may face resignation calls

By Andrew Jack in Paris

Shareholders in Eurotunnel, the troubled Anglo-French operator of the Channel tunnel rail link, are considering calling for the resignation of several of its directors at the *annual general meeting* on Thursday.

They may push for a vote of no confidence as one way of demonstrating their strength and expressing concern over the restructuring of Eurotunnel's debt which the group is negotiating with its bankers.

Leaders of the three main shareholder groups will meet tomorrow to set out a strategy ahead of an AGM which is likely to prove animated, and at which they will control a substantial number of votes. They are also preparing *detailed questions to put to the* board.

They are keen to make clear the importance of their strength as one signal to Eurotunnel's creditor banks that they will not accept a restructuring which dilutes their investment too far.

Eurotunnel was forced last week to switch the venue for its AGM to the Palais de Congrès in Paris in view of the large number of people expected to attend.

The meeting is likely to be well attended as most of the group's shareholders are based *in France, and it is the* first AGM to be held since Eurotunnel suspended payment of interest to its banks last autumn and began discussions about a restructuring plan.

The group is expected to announce details of how the talks are progressing at the AGM.

Separately, Mr Robert Badinter and Lord Wakeham, the two "mandataires ad hoc" appointed earlier this year to assist the company in its discussions with creditors and shareholders are expected to submit a confidential report to *the Paris commercial court* by the end of this month.

In the past few weeks, there has been a huge volume of correspondence between individual investors and the leading Eurotunnel shareholder groups, in an unprecedented example of proxy solicitation in France.

The greatest amount of support *has come as a result of a* concerted campaign by Investir, a French fortnightly newspaper for investors, which published blank proxy forms which it encouraged readers to complete by giving their voting powers to Ms Sophie l'Hélias, a shareholder activist.

She has more than 16,000 proxies representing more than 40m votes. More will come from the association of Eurotunnel shareholders controlled by Mr Christian Cambier.

The AGM will give shareholders some indication of how much power they can muster, *and act as a rehearsal for the* extraordinary general meeting which Eurotunnel will need to convene to approve its restructuring plan with its banks once it is finalised.

The AGM comes a day before that of Crédit Foncier de France, the specialist property lending group which has reported losses of FFr10.8bn ($2bn) for 1995.

Shareholders plan to vote against approval of the accounts and call for an alternative rescue plan to the one proposed by the management.

Shareholders are demanding greater democracy, says **Andrew Hill**

A rattle grows louder at Italy's boardroom doors

Nobody goes to Italian *shareholder meetings* for fun. Until a few years ago hardly anybody except the board even went for business, apart from a handful of professional *disturbatori*. They used to demand payment or threaten to prolong meetings with footling inquiries about balance sheet details, until Italian courts started *handing down jail sentences* for extortion.

Italian *company directors* are beginning to feel the heat again, and this time from more respectable quarters. The country's fund managers and small shareholders have begun a loosely co-ordinated action to cajole large companies into releasing more transparent information, and to end discrimination against minority investors.

"It's funny that 12 years *after mutual funds started* operating in Italy, the fact that fund managers attend shareholders' meetings is news," says Mr Carlo Maria Mascheroni, chief executive of the Azimut fund management group. "It should be a normal situation: if I invest in a company, I ought to try to defend my investment."

This week some of Italy's largest quoted groups hold their annual meetings. In Turin on Wednesday Mr Cesare Romiti will preside over the first shareholder assembly since taking over from Mr Gianni Agnelli as chairman of Fiat, the automotive and industrial group. On Saturday in Trieste Mr Antoine Bernheim, the French chairman of Assicurazioni Generali, one of Europe's largest insurers, will, probably for the only time this year, invite questions about the group's strategy.

A stormier confrontation is likely to take place the same day in Milan, at the shareholder meeting of Gemina, the Italian investment company controlled by Fiat, Generali, Mediobanca, the establishment's merchant bank, and other big names of Italian business.

Those shareholders will be silent at Saturday's meeting, probably as much from embarrassment as anything else.

Last autumn the same core investors considered Gemina a suitable vehicle for a merger with Ferruzzi Finanziaria (Ferfin), *the holding company* which controls the Montedison industrial group. Analysts' criticism, gaping losses and a judicial inquiry into alleged falsification of accounts at Gemina and its subsidiaries put paid to the plan. Gemina's board resigned earlier this year and the group has since announced a consolidated loss of *L632bn ($407m)*, more than twice the previous year's figure.

The new directors will have to explain on Saturday why they were unable to include Gemina Capital Markets, Gemina's wholly-owned finance company, in the consolidated results. Even the internal auditors decided to withhold their signature on the accounts at least until the assembly.

The fact that it takes a *corporate crisis on this scale to* prompt such a reaction is an indication of how far Italy has to go before executives can boast about advances in corporate governance. But avoiding a repeat of the Gemina crisis, and its obvious repercussions on the reputation of the Italian stock exchange, is only one element of the fund managers' campaign.

Many of their battles are being fought on less well-known terrain. For example they are complaining about the lack of information, and the poor price, offered by Unicem, an Agnelli-controlled quoted cement group, for the shares it does not already own in Cementeria di Barletta, an *obscure quoted subsidiary.*

Fund managers say they also want to end Italian companies' habit of issuing non-voting savings shares to raise cash, which excludes investors from active participation, and shake the dominance *of holding companies, such as* those used by the Agnelli and De Benedetti families to control, respectively, Fiat and Olivetti, the computer group.

They already claim to have won small victories in persuading companies to publish more detailed comparative information. And new companies coming to the market, including all the recently privatised groups, are beginning to boast about special statutes which encourage shareholder democracy, such as reserving seats on the board for small investors' *representatives.*

To make further progress they probably need the help of Consob, the Italian financial markets regulator, the soon-to-be-privatised stock exchange, or even the government. But it will still be an uphill task. Those companies in the orbit of Mediobanca are linked by a protective system of cross-*shareholdings, which they are* not willing to or capable of unwinding, claiming that it helps promote longer-term growth. In addition, self-made entrepreneurs are reluctant to give up the holding company system on which their fortunes were built.

"*The holding company* structure is obsolete; it's not popular with the financial markets and there's no doubt we wouldn't do it like that today. But you have to be pragmatic: these things exist," says one prominent Italian industrialist.

So why should these large *Italian companies even care* about minority shareholders' complaints?

Fund managers say the main reason is that without a ready pool of institutional investors and savers, *the cost of capital* will remain prohibitively high *for Italian companies that* need to compete internationally. Instead of traditional bank financing, all groups are having to consider risk capital. "If they want our money, they have to look at the rules, which are transparency and fairness," says Mr Massimo Fortuzzi of Finanza & Futuro, the financial services group *owned by Deutsche Bank.*

Analysts say the success of recent public offerings by medium-sized companies, which come from outside the existing network of alliances and holding companies, shows that investors' attitude is changing. Carnegie Italia's recent *study of medium-sized* companies says: "The Italian market is now efficient enough to direct capital towards the wealth creators and away from firms that squander capital and ignore shareholders' interests."

The message to old-style corporate Italy *is clear: it will take* more effort to get this generation of *disturbatori* to shut up; but in the long run it might actually earn you money.

Visa to launch cross-border corporate cards

By Motoko Rich

Visa International, the payment card association, *is* planning to launch cross-*border corporate credit cards* to take market share from rival American Express.

The move follows Visa's decision last month to drop a proposed ban on European member banks issuing competing cards such as American Express.

Earlier this month, American Express responded by *announcing an international* expansion programme and said it would begin issuing cards through banks. Until now, American Express has primarily issued its own cards, mostly charge cards, through an internal distribution network.

It is understood the European region of Visa plans to issue the cross-border products *to help multinational* companies consolidate their corporate *spending. Currently Visa's* member banks can issue corporate credit cards, but only to residents in the country of issue.

The cross-border product will allow a company's head office to obtain credit cards for all its executives, no matter where *they live and work. Visa said* this would help companies *monitor spending and cut costs* through bulk deals.

The cards, which are likely to be launched this autumn, would still be issued by member banks.

American Express dominates the corporate card market, with two-thirds of the Fortune 500 companies and 80 of the Times's top 100 companies using its cards. However, Visa commands 54 per cent of the *total global payment market* in terms of transaction volumes, while American Express has only 10 per cent. Mastercard, another payment rival, has a 31 per cent share.

Visa will also today begin a pilot with The Royal Bank of Scotland of its electronic travellers cheques – pre-paid disposable ATM cards which can *be used to carry money to holi*day destinations. American Express *commanded 52 per* cent of the world travellers' cheque market last year, while Visa had 25 per cent.

Visa is also trying to persuade its member banks that agreeing to issue American Express cards would jeopardise their business. Mr Hans van der Velde, president of the European Union region of Visa, *said: "The banks should be* worried about American Express because they would be letting a Trojan Horse in-house and giving it access to their best customers."

He said American Express could use the links with banks to cream off customers and offer them other financial services, such as deposit accounts *and investment products.* American Express said: "We see ourselves as partners with the banks, helping them to increase their profitability. We see the banks competing with each other, rather than with American Express."

INSIDE

Sun Life

The offer for shares in Sun Life and Provincial Holdings, the UK and Ireland arm of France-based insurer UAP, has been oversubscribed by two to three times. Shares, which begin trading today, have been valued at 235p.
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Compagnie d'Investissements de Paris

Banque Nationale de Paris, the French banking group, must decide today whether to accept an offer of FFr206 a share from SBC Warburg, the investment bank, for its majority stake in Compagnie d'Investissements de Paris, an investment company.
Page 18

Fund Management

Germany, Belgium, Switzerland and Denmark to some extent require pension assets to be invested in government bonds to reduce risk. But a study by the European Federation for Retirement Provision, a lobbying group, suggests the urge to protect people from the folly of their own actions can have strange effects.
Page 20

Faces

The flotation of Mediaset, Silvio Berlusconi's television and advertising business, has marked the return to the limelight of Rainer Masera, director-general of Imi, the Italian banking group which is co-ordinating the flotation. It is six months since Masera ended a 12-month "sabbatical" as budget minister in Lamberto Dini's government.
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Global Investor

The first-quarter rise in Japan's gross domestic product and the strength of US non-farm payroll figures have revived the debate over whether global interest rates are on the turn.
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STATISTICS

COMPANIES IN THIS ISSUE

BTR to face pressure over dividend and sale plans

By Ross Tieman in London

BTR's senior management will today face tough questions from analysts about the speed and scale of its disposal programme amid mounting concern that the diversified industrial group may be obliged to *cut its dividend.*

At lunchtime meetings with *analysts today and tomorrow*, Ms Kathleen O'Donovan, BTR finance director, will be pressed to explain how the group will address the widening gap between its shrinking cash flow and the £600m ($918m) annual dividend bill.

Mr Ian Strachan, who took over as chief executive in January, has already signalled his plan to sell BTR's plastics manufacturing operations in Taiwan.

It is now believed in the City that the *businesses, which are* small players in notoriously tough markets, may prove difficult to divest. The disposal could raise about £290m, analysts estimate.

BZW, broker to BTR, has already forecast that the 1997 dividend may be pegged at 15.5p, but some analysts are predicting a *cut*.

The City believes Mr Strachan *might* need to accelerate BTR's restructuring by widening his divestment programme radically. ABN Amro, the broker, says BTR could raise up to £1.6bn by selling its US aggregates businesses, other polymer producers, and a range of peripheral subsidiaries. Such a programme would reduce BTR's £10bn of annual sales by some £4bn.

To clear the path for the sale of Taiwanese companies BTR bought the 38 per cent minorities *in BTR Nylex*, its Australian subsidiary, for $2bn last December. Ten years ago, BTR Nylex acquired a controlling interest in the China General Plastics Group, set up by entrepreneur Mr James Chao.

China General has three *main operating subsidiaries.* BTR has 41 per cent of the *China General Plastics* at Toufen which makes PVC; 51 per *cent of Asia Polymer* Corporation at Kaosiung making low-density polyethylene; and 51 per cent of Taita Chemical Company, which makes styrene-based plastics. BTR runs all three.

BTR must find a buyer willing to reach a deal with its partner, and enter head-to-head competition with Formosa Plastics, which dominates plastics production in Taiwan.

Although Formosa could be a buyer, it has generally preferred *to set up its own green*field sites.

Another company mentioned as a possible buyer is Sumitomo of Japan, which has a small joint venture with China General in the US.

Sun Life offer over two times subscribed

By Martin MacConnol

The offer for shares in Sun Life and Provincial Holdings, the UK and Ireland arm of France-based insurer UAP, has been two to three times subscribed.

Shares, which begin trading today, have been valued at 235p and the company is capitalised at £1.3bn. Excluding privatisations, it is believed to be the eighth largest flotation in the history of the London market.

The offer of 234m shares has a total value of £535.4m – although this could rise to £606m if over-allotment options are exercised before July 19. This means UAP retains a majority shareholding of 60.2 per cent – which could drop to 54.2 per cent if the options are exercised in full.

Mr Michael Hart, chief executive of Sun Life and Provincial, said: "We are delighted by the level of demand for shares both from institutions and private investors. Demand was such that we have been unable to meet all investors' requirements in full."

Some 143.4m new shares have been issued by Sun Life and Provincial, and 80.6m existing shares are being sold by UAP.

Sixty institutions – 53 of them UK-based – bought 80 per cent of the shares. After 20,000 prospectus applications, 11,000 retail investors applied for a stake – 14m shares worth £33m have been allocated to retail investors.

Priority retail applicants, mainly employees of the Sun Life and Provincial Group, will receive their requests for stakes in full – as will investors who wanted to invest between £1,000 and £5,000.

Analysts expect dividend growth of about 10 per cent in 1996.

Lotus expects deal in weeks

By John Griffiths

A deal with at least one "substantial" new investor in Lotus, the Norfolk-based sports car and engineering concern, will be signed within the next few weeks, according to Mr Neeraj Kapur, the group's finance director and effectively its chief executive.

To help secure funds, Mr Kapur and colleagues have had to assure potential investors that Lotus is adequately ring-fenced from sister companies controlled by Mr Romano Artioli. The Italian entrepreneur bought Lotus three years ago from General Motors but Lotus's future was thrown into doubt when his Italy-based Bugatti "supercar" company was put in receivership last year.

Lotus declined to identify incoming investors but it is expected that any agreement will include constraints on the freedom of Mr Artioli to sell Lotus.

Despite rising profits, Lotus needs new investment to expand its engineering consultancy to large carmakers, Mr Kapur said. The company is also considering a stock market float in the next few years.

Pre-tax profits of Lotus Group International, Lotus's parent, rose to £4.93m on turnover of £87.2m in the year to December from £3.8m on sales of £67m for the 18-month period to December 1994. The accounts, filed recently at Companies House, were unqualified by Price Waterhouse, the company's auditor.

Engineering consultancy was the main reason for the upturn, contributing £5.8m in operating profits. Car manufacture was also profitable, contrary to speculation in the industry. Car sales and servicing made operating profits of £1.2m last year, despite production of only 843 cars.

Deliveries of the Elise, a lightweight sports car, have begun and Lotus will produce 400 this year and 800 in 1997, Mr Kapur said.

Some 400 of the £50,000-plus Esprit V8 model launched at the start of the year will be made this year, with output expected to remain around this level in 1997.

With big carmakers seeking to out-source more of their engineering development and component systems, Lotus is keen to set up another engineering centre with a new investment partner.

It already has planning permission for a 55-acre site to complement its site at Hethel, Norfolk, which employs 1,000 in engineering and carmaking operations.

Robert Walters listing

By Geoff Dyer

The boom in the temporary labour market has encouraged Robert Walters, the recruitment company, to seek a stock market listing next month with an expected value of up to £30m.

The company, which was founded by Mr Robert Walters in 1985 and which specialises in financial services recruitment, intends to raise about £10m from selling shares.

Mr Walters, who is chief executive, intends to sell shares worth £5m, reducing his stake from 60 per cent to some 40 per cent.

Lloyds Development Capital, which has a 15 per cent stake, and the group's other executive directors, who together also own 15 per cent of the equity, will be selling shares worth about £2m.

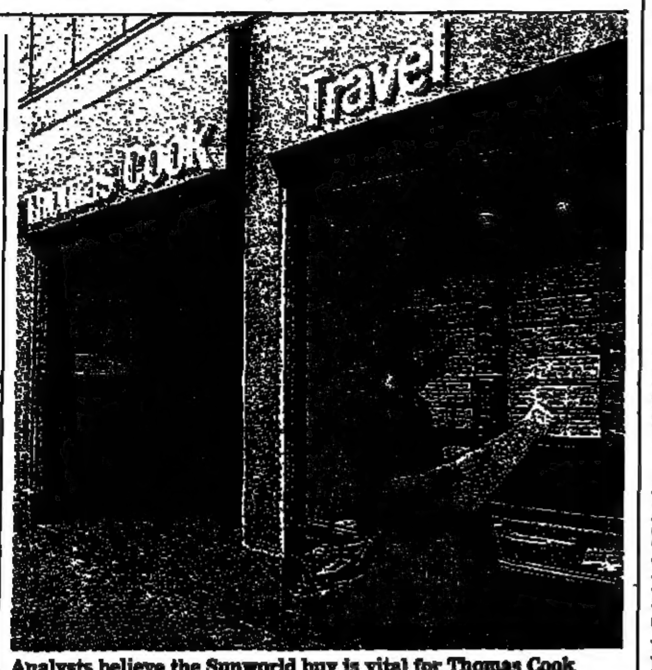
The company intends to raise about £2m from issuing new shares which will be used to expand the overseas operations either in Singapore or Hong Kong.

The funds raised will also be invested in expanding its facilities management business, where it handles the pay-roll and administration for large contracts of temporary workers.

Mr Walters said the flotation was necessary because "if we do not expand we run the risk of being stuck as a middle-sized business and we cannot move back to become a boutique". Flotation would also enhance the company's profile.

In 1995 it made pre-tax profits of £2.11m (£1.63m) on turnover of £24m (£19.1m).

Guinness Mahon is underwriting the flotation, which is expected to take place in mid-July, and Collins Stewart are brokers.



Analysts believe the Sunworld buy is vital for Thomas Cook

Legal problems delay Thomas Cook deal

By Scheherazade Daneshkhu, Leisure Industries Correspondent

Legal technicalities are believed to be behind the delayed acquisition of Sunworld by Thomas Cook, the high street travel agent.

The £28m deal which was to have been announced last week, is now expected to be finalised this week, possibly tomorrow.

Sunworld, which is privately owned by GVI, the Spanish group, has grown to become the UK's fifth largest tour operator in five years, after Thomson, Airtours, First Choice and Cosmos-Avro. These five tour operators account for 60 per cent of overseas summer holidays and last year sold 7.5m holidays.

Although Thomas Cook has been critical in the past of vertical integration, whereby tour operators and travel agents share ownership, analysts believe the acquisition is vital for Thomas Cook if it is to compete with Thomson and Airtours, which own respectively Lunn Poly and Going Places, the high street travel agents.

Thomas Cook, which last year reported pre-tax profits of £25.2m after a £30.2m write-down of its 11 per cent shareholding in First Choice, does not provide a breakdown for its two core businesses.

But analysts say its financial services arm is far more profitable than its travel retailing division.

The strategic link with First Choice forged in 1993 when Thomas Cook took a 21 per cent stake, never fulfilled its potential and has been unravelling.

BNP to decide on sale of CIP

By Andrew Jack in Paris

Banque Nationale de Paris, the French banking group, must decide today whether to accept an offer from SBC Warburg, the UK-based investment bank, for its majority stake in Compagnie d'Investissements de Paris.

The offer, at FFr205 a share, is worth substantially more than BNP's own offer to buy out minority shareholders made last month by exchanging one of its own shares for each of CIP's.

BNP, which holds about 84 per cent of CIP, has come under pressure for the second year running by non-French shareholders trying to improve the return on their investment in the company.

The bank pre-empted the criticisms made by Warburg in a series of resolutions lodged ahead of the CIP annual general meeting, by announcing the proposed buy-out of the minority investors.

The counter-bid from Warburg, which holds about 3 per cent of CIP's shares, came after it unsuccessfully attempted to appeal to the French stock market authorities to block the BNP offer.

It argued that the price was not sufficiently high and that shareholders should have the right to a payment in cash rather than in shares.

Warburg is believed to have been frustrated by the nature of its contacts with BNP's management when it attempted to discuss the terms of the CIP bid.

It decided against launching a rival offer for all the CIP shares because French stock market regulations do not allow it to place a minimum acceptance level on its bid.

As a result, it launched a bid for BNP's 84 per cent holding, while pledging to buy out all the other CIP shareholders if BNP accepts its offer. The Warburg bid places additional pressure on BNP to justify its lower price ahead of the closing date at the end of this month.

Warburg estimates that the net asset value of CIP is FFr245 a share, and is considering extending the deadline for its own counter-bid made to BNP.

BNP refused to comment on the deal.

Spanish cable TV market in disarray

By David White in Madrid

A battle over Spain's potentially lucrative cable television market has degenerated into confusion as a result of a decision by a Madrid judge.

Telefónica, the partly state-owned telecommunications company, and its majority-owned subsidiary Cablevisión have been ordered to suspend activities in the sector, which is still in its early stages.

Telefónica and Cablevisión said they would appeal against the suspension order, arguing it could hamper the development of the cable business.

The judge's decision, in response to a case bought by rival group Cablieuropa, adds to problems raised in the European Commission over the Telefónica venture. Its principal partner in the venture is the Spanish associate of France's Canal Plus pay-television group, with the aim of bringing in local shareholders in cable TV operating companies around Spain.

Cableuropa, in which the main shareholders are Banco Santander, Banco Central Hispanoamericano and the state-controlled electrical utility Endesa, has also set up in several Spanish cities.

The judge said there was evidence that Telefónica and Cablevisión had infringed the law on unfair competition. He ordered them to "abstain from any employment use or, as the case may, cease any employment that is already being made of assets related to the concession of the public telephone service in order to use them for other purposes and, in particular, for provision of cable television services".

Telefónica said the move threatened to hold back cable plans, with "serious consequences" for users and suppliers.

If upheld, the suspension would lead to "incomprehensible delays" in the development of modern telecommunications services including multimedia projects.

Banks burnt in copper meltdown

The copper market has over the past two weeks provided a fresh demonstration of the dangers of options trading – both to the stability of markets and to the investment banks which deal in derivatives.

Rumours about Sumitomo's positions, and the Japanese trading house's announcement of $1.8bn in losses on copper trading, were the primary cause of the collapse in prices, which closed on Friday at $1,890 a tonne, its lowest closing level this year.

However, the banks which sell options have accentuated the market's volatility, and have themselves suffered losses as a result.

The irony is that the activity which results in such frenzied markets is itself far from speculative. The bulk of derivatives dealing in copper arise from the rather conservative policy of producers of the metal, such as Phelps Dodge.

Producers have typically hedged themselves against a decline in copper prices by purchasing put options, which give the holder the right to sell copper at a set price.

Put options are like insurance policies which, for a modest premium, provide protection should the market fall below that danger level and threaten profitability.

The main providers of these insurance policies are investment banks such as Bankers Trust, Goldman Sachs, J.P. Morgan, Lehman Brothers and Merrill Lynch. Using complicated mathematical techniques, these derivatives dealers price put options and sell them to corporate clients.

Before the current turmoil, copper producers had typically bought put options which would pay off only if the price dropped to between $2,000 and $2,200. Copper (three-month futures) traded in a range of $2,400 to $2,700 between January and May this year. But in early June, the market fell below $2,300.

As the price dropped towards and past the level at which the put options could be exercised, so the likelihood increased that investment banks would face claims from clients.

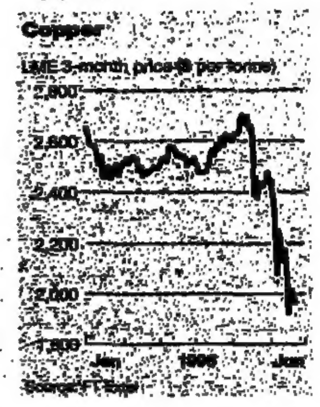
To protect themselves, the banks used a technique known as "delta hedging". They sold futures, establishing short positions which gained as the price fell. If the market continued to drop, any payouts to clients would be offset by profits on the futures positions.

That is the theory. But the investment banks defeated their own purpose. As the copper price moved down past the critical $2,200 level, risk models dictated that the derivatives dealers sell contracts for about 500,000 tonnes for every $100 drop in the price.

By selling as the copper price fell, the investment banks made market moves yet more violent. They were trapped in a vicious circle. On June 6, the price went into free-fall, dropping from from $2,247 to $1,910 a tonne within two hours.

The day was a prime example of that which derivatives dealers fear above all: "gap risk", the danger of a discontinuity in the market, during which there is no liquidity and delta hedging is impossible.

"It was horrendous: it was a nightmare," says a leading commodity derivatives practitioner. "People were trying to sell at $2,050 but could only do so at $1,900."



Rumours that some investment banks have made losses of $100m each in the copper markets are almost certainly a wild exaggeration. First, some investment banks, bearish on copper, held short futures positions over and above those related to options trading, and profited.

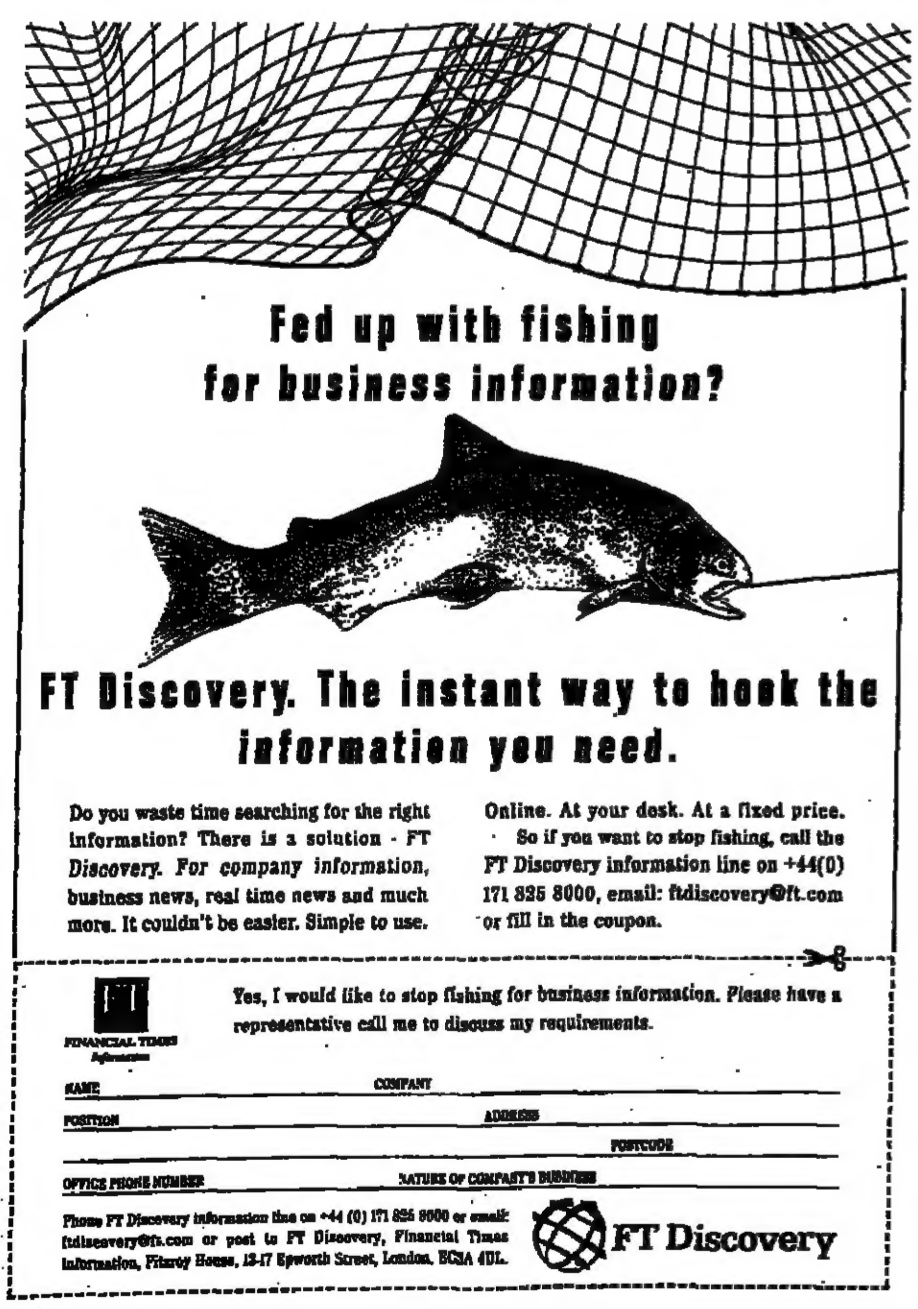
Second, volatile markets, although dangerous for option sellers, often make for price discrepancies which traders can exploit. In recent weeks, for instance, the copper price on Comex has been at a premium over the London Metal Exchange: an opportunity for arbitrage desks to sell in Comex and buy on the London market, and pocket the difference.

Third, the leading derivatives houses subject their portfolios to "stress testing" – running through worst-case scenarios, such as a repeat of the 1987 stockmarket collapse. Through these experiments, investment banks take account of the risk of gaps in the market and limit their business accordingly.

Nevertheless, it is understood that some investment banks have suffered losses in the order of $10m each in the copper markets. This setback comes only three years after the last copper meltdown.

Commodity derivatives experts expect several investment banks to scale back their copper options business as a result. Those that do retrench will be victims of their own success, burnt by the market volatility they have themselves fuelled.

Nicholas Denton



Israeli company set for £40m Aim tag

By Christopher Price

BATM, a manufacturer of data communications equipment, is aiming for a valuation of about £40m when it joins the Alternative Investment Market next month.

It will also be the third Israeli high-tech company to join Aim this year, amid a growing trend of overseas groups to come to the UK market for smaller companies.

BATM was started in 1992 and unusually for a high-tech company with a large research and development arm has been profitable from its first year of trading.

Pre-tax profits rose from $1.15m to $2.82m (£1.84m) in the year to December 31 1995. Turnover increased 55 per cent to $7.62m. Net cash amounted to $3.15m, while shareholders' funds stood at $4.9m.

Mr Zvi Marom, chief executive, said the company had chosen Aim over the Nasdaq market in the US because of the more "realistic" rating attached by UK investors.

"We are a small company and we did not want to spend management time having to constantly meet with US analysts and investors in order to justify a fancy share rating. Multiples are flattering for the ego but bad for the company."

BATM intends to use the £8m it is raising from the placing to invest in a new production facility in California and to acquire interests in other datacoms companies.

● Cirqual, a maker of aluminium and thermoplastic extrusions, intends to float on Aim and to raise £2m-£5.8m – to reduce gearing and facilitate acquisitions – via a placing. The company will be valued between £16m and £20m. In the six months to February 29 pre-tax profits were £1.23m on turnover of £9.19m.

Cinven pays £28m for Routledge

Cinven, the venture capital company, has bought Routledge from Thomson Corporation for £28m.

The amount falls some way short of the £62m it was thought the Canada-based publishing and travel group had wanted for the British academic publishing company.

Routledge, which owns the Arden Shakespeare series as well as exclusive UK rights to Carl Jung and Bertrand Russell, had sales of more than £30m in the year to December, most of which derived from the UK. It has operating companies in London and New York.

Some £15m of the consideration will be equity funded by Cinven, which manages some £1bn on behalf of its clients, which include British Coal Pension Schemes and Railways Pension Schemes. Bank of Scotland will provide the debt facilities.

Bula plans Russian link up in Siberia

By Jane Martinson

Bula Resources, the Dublin-based oil exploration and production company, is set to announce a joint venture with a Russian partner to develop oil fields in western Siberia.

Bula hopes the move, which it aims to announce officially in the next few weeks, will draw a line under the problems it has experienced in its two-year venture in the region.

Mr Jim Stanley, chairman, said a preliminary agreement for a joint venture had been signed with Aki-Otyr, a joint stock company with four oil-field licences in western Siberia.

The deal still needs permission from the regulator in Russia, which is set to take a further six weeks. Bula claims the Aki-Otyr fields contain 268m barrels of oil reserves.

The new deal, in which both sides take a 50 per cent stake in a holding company which will own the oilfield licences, represented a move away from "the nightmare of the first deal," said Mr Stanley.

Earlier this month the company severed its two-year-old links with the Russian Transcontinental Financial-Industrial Corporation because it felt that the relationship was affecting its right to 51 per cent of Aki-Otyr. Aki-Otyr had disputed the ownership claim of the Russian Corporation.

As part of a complicated package to extricate itself from the connection with the Russian Corporation Bula is set to pay the Corporation $2.1m (£1.37m) over an 18-month period for its disputed share of Aki-Otyr.

However, in return, the Corporation has agreed its stake in Bula – some 71.9m shares. The proceeds of this share sale, which Bula expects to exceed the settlement sum, will go to Bula.

WEEKEND SHARE WATCH

A digest of Saturday and Sunday comment on UK companies

■ Taylor Woodrow, the construction company, denied a Sunday Times report that it had served a writ against Hammerson, the owner of Brent Cross in north-west London, over building work believed to be worth about £11m.

However, the company said: "A number of days ago we wrote to Hammerson outlining the contractual position. Active discussions are continuing."

The negotiations are over improvements made to Brent Cross where a £40m redevelopment is taking place, with Taylor Woodrow understood to be claiming it is owed £11.4m.

■ United Utilites: The Sunday Telegraph said United Utilities, owner of the Norweb regional electricity company and Northwest Water, is talking to Utilicorp, a US utility with which it has a gas joint venture, about creating a nationwide energy company in the UK.

Utilicorp is in the middle of a contested merger with Kansas City Power & Light, but is also keen to expand its UK presence. The company, which has gas joint ventures with Eastern and Sweb, has spoken to its UK partners about "enhancing our relationships," but it recently denied that any merger talks were under way.

■ The Investors Compensation Scheme, which is seeking to recover more than £30m from the West Bromwich Building Society, confirmed a report in the Sunday Telegraph that it is asking the judge to move its case against the society to January 13. This slot had been allocated to the ICS in its action against Cheltenham & Gloucester Building Society which was settled out of court last week.

The ICS has paid about £50m in compensation to borrowers who were saddled with mortgage debts because of the home income plans they took out from 13 building societies.

Priory Hospitals in £88m MBO deal

By Lisa Wood

Priory Hospitals, the private acute psychiatric group, has been bought in an £88m management buy-out led by Dr Ian Reynolds, the former managing director.

The acquisition, from Community Psychiatric Centers of America, was financed by a mixture of equity and loan debt involving the private equity division of Mercury Asset Management and Royal Bank of Scotland.

Priory claims a 55 per cent share of the private sector psychiatric care market.

It employs more than 1,200 people and operates 12 hospitals, three day centres and two residential schools. It also has joint ventures with the NHS, an area of its work that it is seeking to develop further.

Dr Reynolds, who will become managing director of the group, formerly worked for the NHS as chief executive of Nottingham Health Commission before joining Priory last year.

The new company structure will include equity participation and board representation for the consultant psychiatrists with equity ownership also to be offered to some other employees.

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NEWS DIGEST

Broken Hill drops Mongolian project

Broken Hill Proprietary, the Australian resources group, is pulling out of an ambitious multi-billion dollar power project in Inner Mongolia. It said it would not be proceeding with a detailed feasibility study into the scheme, which could ultimately have led to the development of a large open-cut coal mine as well as a thermal power station at Zhungeer Haerwusu near Hohhot, the Inner Mongolian provincial capital. BHP said its power subsidiary and the Zhungeer Coal Industry Corporation, part of China's Ministry of Coal Industry and its potential partner in the scheme, had signed a formal agreement terminating their earlier letters of intent.

No official figures had been put on the likely development cost of the project, but BHP had acknowledged that it would have been "in the billions". Most estimates had ranged between A$2bn and A$3bn (US$1.55bn–$2.37bn).

Pre-feasibility study work on the project had been under way for about 18 months, with the first letters of intent signed in late-1994. BHP said its decision to withdraw came "after assessing the viability and achievability of the Haerwusu project". In particular, it said it had concerns "relating to the extended timing and cost of the study". It declined to provide more precise figures, but said the decision did not alter its "commitment to growing its business in China".

Nikki Tait, Sydney

Hambrecht & Quist plans float

Hambrecht & Quist, one of the US investment banks to have benefited most from the recent stampede of technology and biotechnology companies to the stock market, has filed notice of its own intention to go public. The San Francisco-based bank's filing also reveals just how lucrative the recent spate of initial public offerings in the US has been.

Because of the underwriting fees and heavy trading volume in popular new companies such as Netscape Communications, which it helped launch with Morgan Stanley, H&Q reported post-tax profits of $47.6m for the six months to the end of March. That was almost as much as it made in all of the previous year, which in turn was more than the bank had earned in the previous four years combined.

H&Q, founded in 1968, first rose to prominence more than a decade ago through its involvement with the public offerings of companies such as Apple Computer and Genentech. Its fortunes have fluctuated sharply, in part because of its involvement in the IPO market, with its pattern of feast and famine.

The investment bank said it planned to raise $80m through the sale of new shares, although it did not say how much of the company this would represent. It is generally believed, though, that the new shares will account for 15–20 per cent of the equity, valuing the entire company at about $400m–$500m. That would represent a significant premium over its book value of $125m, although a far more modest multiple of its current, strong earnings.

Richard Waters, New York

Texas revamps management

Texas Instruments has split top management responsibilities among four executives following the death last month of Mr Jerry Junkins, chairman and chief executive of the semiconductor and electronics group. The company named Mr Thomas Engibous as its new president and chief executive, and the election of Mr James Adams, a board member, as chairman. Mr Pat Weber and Mr Bill Mitchell will remain vice-chairmen and members of the chief executive's office.

Mr Engibous, 43, has served as president of TI's semiconductor operations, the company's largest business, for the past three years. An electrical engineer, he joined the company in 1976. Mr Adams, 57, a former group president of SBC Communications, a regional telephone company, has been a member of the TI board since 1989. He will now become a full-time TI employee and will be an "active chairman", the company said.

The appointments surprised some industry analysts, who had expected that TI would simply elevate its two vice-chairmen following Mr Junkins' death. The announcement was, however, well received. Mr Engibous's experience in the semiconductor sector will be particularly important in the near term, analysts said, because TI faces the challenge of maintaining its profit margins in the face of falling prices for Dynamic Random Access Memory chips, one of the company's main products.

D-Ram prices have continued to fall in the second quarter, Mr Engibous said on Friday, a day after his appointment. Through the development of other, more profitable, semiconductor products, TI has succeeded in cushioning the effects of the memory chip price decline, he added, "but more needs to be done".

Louise Kehoe, San Francisco

Quarterly changes to FT/S&P World Indices

At its last quarterly meeting, held in London on June 6 1996, the FT/S&P Actuaries World Index Policy Committee confirmed that new indices for Indonesia and The Philippines will be added to the World Indices with effect from July 1.

There will be no changes to the constituent companies for the two countries previously announced. Relative country weightings are as follows (all data as at May 31 1996):

Indonesia: 0.14 per cent of The World Index, 2.59 per cent of the Pacific Index excluding Japan and 0.50 per cent of the Pacific Index including Japan.

The Philippines: 0.12 per cent of The World Index, 2.42 per cent of the Pacific Index excluding Japan and 0.47 per cent of the Pacific Index including Japan.

The Committee also agreed, as a result of a full review of Canada, to add 30 new constituents and to delete eight. All the new constituents except Petro-Canada will be included at an investibility weighting of 100 per cent. All changes will take effect from July 1.

Additions: Abitibi-Price (Sub-sector 653); Anderson Exploration (213); Avenor (652); BCE Mobile Communications (223); Biochem Pharma (433); BRE-X Minerals (641); Cameco (641); Canadian Natural Resources (213); Cognos (482); Diamond Fields Resources (641); Donohue class A (652); Fairfax Financial Holdings (151); Falconbridge (632); Franco-Nevada Mining (641); Horsham (171); Kinross Gold (641); Loblaw (494); Loewen Group (405); Magna Intl. class A (571); Methanex (201); Newbridge Networks (533); Noranda Forest (652); Petro-Canada (50 per cent weighting – 214); Poco Petroleum (213); Potash Corp. of Saskatchewan (634); Stone-Consolidated (652); Suncor (214); Telus (223); TVX Gold (641); Viridian (634).

Deletions: Brookfield Properties (161); Canadian Utilities class B (221); Extendicare common (151); Hawker Siddeley Canada (573); Laidlaw class A (304); Molson class B (421); Noma Industries class A (541); Quebec Telephone (223).

Weighting factors for the following Canadian stocks will be increased to 100 per cent on July 1:

Alberta Energy (currently 10 per cent); Bank of Montreal (25 per cent); Bank of Nova Scotia (25 per cent); Canadian Imperial Bank (25 per cent); Gentra (25 per cent); London Insurance Group (25 per cent); National Bank of Canada (25 per cent); Royal Bank of Canada (25 per cent); Southam (10 per cent); Toronto-Dominion (25 per cent); Toronto Sun Publishing (10 per cent).

The following quarterly changes to current FT/S&P AWI constituents, effective July 1, were also agreed:

Additions: None.

Deletions: Austria: Schlumberger; Germany: Linotype-Hell; South Africa: Genbel; Thailand: Padaeng Industrial.

The FT/S&P Actuaries World Indices are jointly compiled by FT-SE International, Goldman, Sachs & Co. and Standard & Poor's in conjunction with the Institute of Actuaries and the Faculty of Actuaries. NatWest Securities Limited is a co-founder. All inquiries should be made to Steven Vale, London, on 0171-448-1800, Barbara Mueller, Goldman, Sachs & Co., New York, on 212-902-6777, or Elliott Shurgin, Standard & Poor's, New York, on 212-208-8709.

Chargeurs celebrates a constructive separation

The French conglomerate rejoices that diversification has produced division, reports Andrew Jack

Three days in advance of the reality, the new signposts were already in place last Friday morning at the entrance to the central Paris headquarters of the former textiles and communications group Chargeurs.

From the start of stock market trading this morning, the business splits into two separate quoted companies: the communications group Pathé, and the textile and surface coatings group Chargeurs International.

Mr Jérôme Seydoux, the chairman of Chargeurs who becomes chairman of Pathé today, says he has no feeling of sadness about the demerger, and proposed instead a celebratory toast to staff last Wednesday. "You are only sad about something negative. This separation is a construction."

The demerger – announced in February and ratified by shareholders earlier this month – was the result of months of reflection about how to deal with the lack of comprehension by analysts and investors, which translated into a substantial discount of the shares to the group's net asset value.

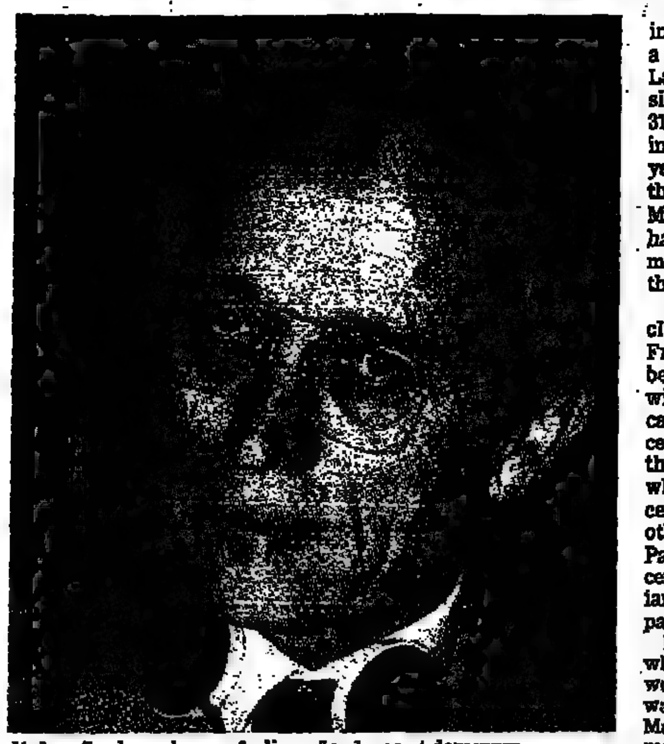
"It was a big handicap," he says. "Our shares were not valued at the appropriate level. That made mobility and development difficult." It made acquisitions using shares impracticable.

Last year, he launched a serious attempt to find a solution to the problem with help from bankers Lazard Frères, and "very timidly", after rejecting other possibilities for a variety of fiscal and legal reasons, concluded that the unprecedented idea of a demerger was the best approach.

It required some minor modifications to French law, and sent a shock-wave through the business community – although he says the principal reaction from the leaders of other companies has been frustration, since they are now pestered by questions from journalists about whether they are considering a similar move.

It also demanded a commitment from him to guard his shares in the group for five years, during which time he cannot "take the money and run". It is a requirement which he says presents him with no problems.

But why did he diversify the industrial group Chargeurs into communications in the first place? The sector seems to be in his family's blood. One of his brothers is the head of a film production company, and the other is chairman of Gaumont, the cinema group.



Jérôme Seydoux: has no feeling of sadness at demerger

Mr Seydoux argues that the process came about "rather by chance". He had his first taste at the start of the 1970s, when he became a director of Gaumont in his previous guise as a banker. Then when Chargeurs sold its transport interests in 1985, the board resolved that it should maintain some industrial activity. "It was perhaps not a good reason," he admits.

For Chargeurs, the media interests began when it played a central role in the launch of La Cinq, France's fifth television channel, in 1986, taking a 31 per cent stake. There were initial setbacks. The following year, the government revoked the broadcaster's licence. But Mr Seydoux says the project had given him and his management team an appetite to enter the sector.

The group had already concluded an accord with a French film producer and begun discussions early on with British Satellite Broadcasting – which led to a 10 per cent participation, a stake in the merged successor BSkyB which now stands at 17 per cent. It went on to acquire other interests including the Pathé cinema chain and 20 per cent of Canalsatellite, a subsidiary of Canal Plus, the French pay television business.

He had little hesitation about which side of the group he would lead after the demerger was concluded. Mr Eduardo Malone, Chargeurs vice-chairman who takes over as head of Chargeurs International, was already largely focused on that side of the business, while Mr Seydoux was concentrating on its media activities.

"In communication, there is a large proportion of the work which is personal and not inter-changeable. Partnerships demand reciprocal confidence," he says.

He predicts that soon "a very large majority" of the 70 per cent of Pathé equity which is held by the public will be dominated by Anglo-Saxon shareholders, and says that their demands for a high return on their investment "suit me very well".

He says that Pathé is already "bilingual" and – notably through its stake in BSkyB – has substantial interests in the UK. He says he would like to appoint more non-French directors to the board, but argues that he is hindered by the lack of foreigners who speak French.

As for the future, he stresses that BSkyB remains at the core of Pathé and he has no intention of selling. "It is not so easy to be a partner with Rupert Murdoch," he says. "That is worth something. To destroy it would not be in our interest."

In other areas, he promises future acquisitions but will not provide any details. Nevertheless, he stresses his profound belief that "in this sector the key is the programmes and not the system of cable or satellite" by which they are broadcast.

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FINANCE

FACES

Masera steps back into the limelight

The flotation of Mediaset, Silvio Berlusconi's television and advertising business, has marked the return to the limelight of Rainer Masera, director-general of Imi, the Italian banking group, writes Andrew Hill. It is just six months since Masera ended his 12-month "sabbatical" as budget minister in Lamberto Dini's technocratic government.

Imi and Morgan Stanley are global co-ordinators of the flotation, which is expected to raise some L7,000bn-L8,300bn ($4.5bn-$5.3bn). Masera was Imi's man on the podium for last week's Milan launch of the Mediaset investment roadshow – a position taken up to now by his deputy, Vittorio Serafino, who stood in for Masera while he was budget minister.

Masera, 52, hasn't joined the international leg of the roadshow, which this week moves from London to the US. But he should be back again in Milan for the first day of Mediaset trading on July 15.

His absence may be because Masera is kept busy by other deals on Imi's plate, notably the disposal of the treasury's shares in Ina, the insurer, in Imi itself, and in Eni, the partially privatised oil, gas and chemicals group. Imi is joint global co-ordinator in all three deals: the Ina disposal was carried out last week, the Imi placing should take place next month and the Eni public offer during the autumn.

It is probably just coincidence that the treasury scheduled those three privatisations ahead of the planned sale of shares in Stet, the telecoms group, and Enel, the electricity producer – jointly co-ordinated by Imi's rival, Mediobanca, the Milan merchant bank.

But a word in the treasury's ear from a former minister can't have done any harm.

Bob Diamond: an American in London

The Americanisation of the City of London continues apace. In the latest example of a US executive taking a top position at a London-based bank, Bob Diamond has moved from CS First Boston in New York to become head of global markets at Barclays de Zoete Wedd.

The appointment is due partly to the ambition of the Barclays Bank division to build its dollar bond business. Acquiring Diamond is the answer to rival's National Westminster Bank's purchase of Greenwich Capital, a leading US government bond broker.

Diamond, who earned at least $5m last year at CSFB as head of fixed income, may well stand to earn more in the grander position he will occupy at BZW. It is likely therefore to be the richest package earned by any Barclays executive, but a BZW executive says hiring Diamond, and the former colleagues who are expected to follow him, is more cost-effective than paying $590m for Greenwich.

While the appointment says something about BZW's ambitions in the US market, it also underlines the demand for American and Americanised investment banking talent among European banks. For instance, the global markets division of another leading European house, Deutsche Morgan Grenfell, is dominated by Edson Mitchell and his former colleagues from Merrill Lynch.

The attraction is mutual. For US executives, the European banks are increasingly attractive places to work. They are well capitalised and serious about their investment banking ambitions. The traditional reluctance to pay Wall Street salaries is disappearing. And, despite the cultural differences, the European houses may be easier to manage in some ways.

Diamond left CSFB after a row over bonuses broke out at the firm. The bonus pool for 1995 was deep, but mortgage-backed bond traders, and the rest of the fixed income department, each felt they deserved and had been promised a larger share. Diamond either mismanaged expectations, according to his detractors, or was a convenient scapegoat.

After CSFB, navigating BZW will be a piece of cake.

Newton's dynamic duo move on

Investment managers William Meadon and Peter Harrison seem to have decided that it is safer to move through the City of London as a pair, writes Jonathan Guthrie. The two trained together at Schroders, left after five years for Newton, and after another five years and a spell of gardening leave are due to join Flemings in September.

Meadon, 36, played an important role at Newton. He headed the specialist equity desks, with £4.5bn ($6.88bn) in assets, and managed the £89m Newton Higher Income Fund, which gave him a high profile in retail fund management circles.

His recruitment to Flemings raises some awkward questions. While the move by Harrison, 31, from Newton's balanced desk to the ranks of Flemings' UK equity managers looks like a step up – from an employer with just £10bn in assets to one with £50bn – for Meadon, who will no longer head a desk, it represents a sideways move at best.

John Ellwood, Newton's corporate affairs director, rejects any suggestion that the pair's departure was prompted by weak 1995 performance and a reorganisation following a merger with Capital House, the Royal Bank of Scotland subsidiary, in 1994. He says: "It's always sad to see bright young men go, but there are no stars at Newton . . . They have made a career move based on money."

According to Pete Seabrook, chief investment officer of Flemings Investment Management, Meadon and Harrison were attracted to the newly-created posts because his operation has grown rapidly and performed strongly over five years: "They wouldn't have come if that hadn't been the case," he comments.

Newton has promoted Toby Thompson, UK specialist investment manager, to the post vacated by Meadon. Connie Fung, the ex-Capital House sales and marketing manager, has meanwhile been recruited from Invesco. She will re-establish Newton's presence in Hong Kong, from which it has been absent since 1994.

Lagos flies in as Serfin seeks a partner

Adolfo Lagos, chief executive officer of Mexico's third largest bank, Serfin, was in the UK last week, writes Stephen Fidler. Surprised by the FT at his London hotel, Lagos said he was in town to talk to Serfin's correspondent banks and to the Bank of England. However, with Serfin looking for a foreign partner and linked in the Mexican and UK press with Hongkong and Shanghai Bank, his visit could have had another purpose.

Lagos, who took over Serfin in March, declined to say whether talks with Hongkong and Shanghai were going ahead. "I'd rather make no comment. There has been a lot of speculation that hasn't been beneficial for anybody."

He acknowledged, however, that the bank was looking for a partner to take a 15 to 20 per cent stake. As one of the three largest Mexican banks, Serfin – along with Banamex and Bancomer – cannot be taken over by foreigners. Since US banks usually insisted on controlling their foreign affiliates, Lagos said it was more likely that the partner would come from outside the US. JP Morgan is helping Serfin find the partner.

This is just one part of a plan to ensure the bank, with its 600 branches, emerges out of its difficulties. JP Morgan has also come up with 18-month bridging loan and ING Barings a five-year credit facility, together totalling $710m. Serfin is expected to complete the sale of 49 per cent of its insurance subsidiary in the third quarter; it wants to raise $200m-$250m in subordinated debt by the year end; and has already sold a second package of $2.6bn of dud loans to the government. On top of that, its main shareholders, which include Monterrey's powerful Sada family and the Vitro glass company, are chipping in a further $140m of equity.

Until recruited by the Sada family this year – an appointment that would have been approved by Mexico's bank regulators – Lagos had worked for 28 years for Bancomer, Serfin's bigger and stronger rival. He said he found the culture of the two banks very different, adding only that Serfin was not in great shape at the time of privatisation five years ago.

It was then that the Sadas unsuccessfully first tried to hire him, but it has taken several years and Serfin's recent travails to complete the move.

Rainer Masera: kicking off the Mediaset roadshow, just six months after ending his year's 'sabbatical' as budget minister, while three other big flotations sit on his desk

Restrictionist governments may fail to see folly of their ways

Norma Cohen calls for an improved understanding of risk so regulations eliminate only the 'truly drunken drivers' of the international investment community

Some activities, such as driving while intoxicated, are considered so dangerous that governments forbid their citizens from engaging in them. The urge to protect people from the folly of their own actions, however, sometimes has strange effects. Take the rules which some European governments set for the investment of pension assets.

Germany, Belgium, Switzerland and Denmark all, to a greater or lesser degree, require pension assets to be invested in their own government bonds, taking the view that this will ensure that when Aunt Agatha finally retires, the money will be there.

But a study from the European Federation for Retirement Provision, a pensions lobbying group, suggests that many governments have a fundamental misunderstanding of investment risk. The requirement to buy bonds has not only increased the costs of providing pensions but has made portfolios riskier, rather than safer.

Of course, portfolio diversification, both by assets and currency, has long been the mantra of investors in the US and UK and there are ample academic studies to support their action.

But the study for the first time quantifies the cost of investment restrictions. It also examines the risk-adjusted rates of return on various European Union pension portfolios and concludes that when the volatility of government bonds is taken into account, too much risk is being taken for too little return.

Consider Belgium, where current rules require that at least 15 per cent of pension assets be invested in government bonds. In the period between 1959 and 1994, equities produced real returns of 4.59 per cent a year while fixed income produced 2.31 a cent.

In Germany, the gap was even more evident. Pension funds achieved a 3.63 percentage point a year better performance on German equities compared with bonds during 1984-1993.

To be fair, it is not simply government restrictions which are keeping pension fund managers from investing in equities. The fixed interest culture

FUND MANAGEMENT

is particularly strong in Germany where, despite privately held financial assets of some DM4,000bn, only 5.4 per cent of the population are shareholders, against 35 per cent in Sweden, 21 per cent in the UK and 16 per cent in France.

"Germans spend more money on bananas than they do on equities," Mr Norbert Walter, chief economist at Deutsche Bank, told a recent pensions conference. There are signs of a slight shift in Germany where 25 per cent of pension assets are held in so-called *spezialfonden* where they are invested in equities and international bonds, against 16 per cent in 1985.

But what private investors choose to do with their own assets is up to them. One would expect professional investors to know better. It is foolish to pretend that investing in government bonds is risk-free. In addition to an element of counterparty risk, there is duration risk – that bonds do not mature in time to provide cash to pay liabilities – interest rate risk and yield-curve risk - that short term rates rise higher than long-term rates.

The insistence on maintaining investments in relatively low-yielding assets while ignoring the risks translates into higher pension costs. The EFRP calculates that an individual whose pension assets underperform his peer group by 1 per cent a year over a 35-year working life will have a pension which is 30 per cent lower in value.

The EFRP examined the average investment portfolios in various EU member states and found that Ireland, with no investment restrictions and a heavy bias towards equities, had the highest real returns in 1984-1993 of 10.25 per cent. The UK was close behind with 10.23 per cent. For these two countries, the cost of providing a supplementary pension equal to 35 per cent of final salary for a worker with a 40-year employment history is 5 per cent of annual salary a year.

In the Netherlands, where, despite the absence of investment restrictions, portfolios are still fairly heavily invested in bonds, that cost rises to 10 per cent of each worker's pay. In Germany, the investment profile and its real returns of 7.15 per cent require contributions equal to 13 per cent of each worker's pay. And in Switzerland and Denmark, where real returns are 4.4 per cent and 6.33 per cent a year, contributions equal to 19 per cent of pay are required.

Thus, there is a new kind of risk which governments must take into account when setting guidelines for pension funds: the risk that there will not be enough money to pay pensions when the day of reckoning arrives. Alternatively, there is the political risk that employers and/or employees will refuse to stump up.

But perhaps it is reasonable to accept lower rates of return because these are justified by the lower risks inherent in the portfolios? Not necessarily so, say the EFRP, which calculated risk-adjusted rates of return on various asset classes.

Ironically, UK government gilts, an asset class which had been disappearing from portfolios of UK pension fund managers between 1984 and 1993, offered about the best return/risk premium of any fixed interest investment on the Continent. During those years, Germany's domestic bonds had a return/risk ratio about two-thirds that of the UK.

Overall, on a risk-adjusted basis, the UK, the Netherlands, Belgium and Germany all had fairly similar rates of return. Yet real returns varied widely. Spanish pension funds, which are free to invest in any asset class they wish, put all but 4 per cent of their assets into fixed interest and scored the lowest return/risk ratio of any EU pension portfolio. Spain was the only EU country whose pension funds would have had higher risk adjusted rates of return by investing in international bonds rather than their own, despite the comparatively high yields the latter offered.

It is easy to conclude that governments make bad investors but professionals also make poor choices even when left to their own devices. The biggest need is for better understanding of risk so government regulations eliminate only the truly drunken drivers in the investment community.

PENSION FUND REAL RETURNS 1984-93

Country	Average return	Inflation	Excess real return
Ireland	14.04	3.79	10.25
UK	15.48	5.25	10.23
Belgium	11.80	2.98	8.82
The Netherlands	9.53	1.88	7.65
Germany	9.38	2.23	7.15
Denmark	9.99	3.66	6.33
Switzerland	7.60	3.20	4.40

Source: European Federation for Retirement Provision

FINANCIAL TIMES MARKETS THIS WEEK

Global Investor / Philip Coggan

'Safety first' may herald change

The phenomenal first quarter rise in Japan's gross domestic product, together with the recent strength of the US non-farm payroll figure, has revived the debate over whether global interest rates are on the turn.

After many years in which one leading economy or another has spluttered, there is the prospect, later this year or early next, that the industrialised countries could be growing in unison.

Although there appear to be no immediate inflationary pressures – particularly so in the light of recent falls in commodity prices – monetary policy could be due for a change. Central bankers are well aware of the need to make pre-emptive strikes against inflation, both because it takes 12-18 months for changes to affect an economy and because "safety first" is the best way of pleasing the markets.

Futures markets are already anticipating a rise in short term rates. On June 18, three month eurodollar futures were looking for rates of 6.2 per cent in December, compared with a prevailing rate of 5.5 per cent; three month euromark futures were pointing to 3.8 per cent, compared with 3.375 per cent; and the three month euroyen contract was looking for 1.24 per cent, against 0.47 per cent.

Bond yields have also been rising in response to signs of the economic rebound. The yield on the 30-year US Treasury bond has climbed above 7 per cent.

Normally, when interest rates are rising, equity markets struggle. In the 14 years since 1982, global interest rates (as measured by three month special drawing right deposits) have dropped in nine and risen in five. In the years when rates were falling, the FT S&P World Index rose by an average of 16.34 per cent, against a gain of just 7.16 per cent when rates were on the up.

That said, many think markets are overestimating the potential for rising rates. Mr Michael Hughes, global strategist at BZW, says it is "one thing to say rates are coming to a turning point and quite another to see much of an increase over the next year".

Most are sure the next move in Japanese rates will be upwards – it could hardly be otherwise from the current low levels – but differ on timing. Mr Keith Skeoch, chief economist at HSBC James Capel, says: "The Japanese GDP data show the economy is moving into the full blown recovery phase. We expect interest rates to move around the turn of the year, when previously we were expecting them to increase in the second quarter of 1997."

But Mr Ian Harwood, head of strategy and economics at Kleinwort Benson, says: "If you adjust for the leap year, that knocks 0.5 per cent off the quarterly GDP rate. A lot of the strength in the Japanese economy has come from public investment and there is still a question mark over whether the private sector has regained the confidence to spend.

"I don't think the Japanese authorities are confident the health of the banking sector has been sufficiently repaired to withstand an increase" adds Mr Harwood. "I think they will wait at least for the Tankan survey in September."

In the US, some are expecting the Federal Reserve to raise rates in early July. One potential constraint is the electoral timetable and President Clinton has made warning noises against higher rates.

But the May non-farm payroll figures indicate the US must be close to full employment. Even if the Fed does not increase rates next month, it seems likely that it will do so by the end of the year.

In Germany, the signs of recovery are still tentative, although an IFO survey this week showed the second consecutive monthly rise in business confidence, and most analysts are looking for a rebound in the second half.

The Bundesbank has, to the market's disappointment, kept the repo rate unchanged at 3.3 per cent since February. M3 money supply growth continues to be stronger than the Bundesbank would like. Kleinwort's Mr Harwood says "real German short term rates are the lowest since the early 1980s, and the yield curve is the steepest for 20 years. That suggests the Germans aren't going to cut rates any more."

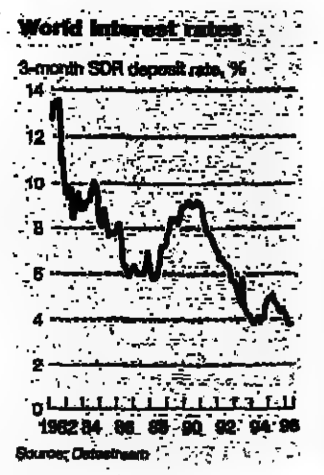
So it does seem to be a question of when and by how much, rather than if, rates start to rise in the world's three most important economies. The effect on the various equity markets might be quite different, however.

Markets can perform well, despite rising interest rates, if earnings are growing strongly. Mr Skeoch argues that "the US is late in the cycle, and has a high level of resource utilisation. Strong economic growth will lead to wage pressures which will not be good for corporate profits.

"There is a sharp contrast with continental Europe where a full-blown economic recovery has yet to happen" says Mr Skeoch. He feels the effect of rising interest rates will be more severe on equity markets in the US than in Japan or core Europe. Perhaps all those UK investment institutions which have been underweight in the US market for so long might finally be proved right.

World interest rates

3-month SDR deposit rate, %



Source: Datastream

Total return in local currency to 20/6/96

	US	Japan	Germany	France	Italy	UK
	% change over period					
Cash						
Week	0.10	0.01	0.06	0.07	0.17	0.11
Month	0.45	0.04	0.28	0.32	0.75	0.51
Year	5.81	1.19	4.56	6.66	11.56	7.28
Bonds 3-5 year						
Week	0.23	-0.24	-0.43	-0.17	0.61	0.06
Month	-0.63	0.11	-0.91	-0.45	1.12	0.80
Year	3.05	1.98	7.61	11.45	22.41	9.60
Bonds 7-10 year						
Week	-0.44	-0.47	-0.40	-0.46	0.60	0.03
Month	-1.29	0.29	-1.14	-0.88	1.30	0.41
Year	0.98	1.77	8.19	13.13	30.98	9.18
Equities						
Week	-1.0	0.9	-0.8	-2.0	2.3	-0.8
Month	-1.6	1.1	-0.2	-1.5	-1.6	-1.1
Year	23.9	41.7	18.4	15.0	7.6	15.2

Source: Cash & Bonds - Lehman Brothers. Equities - FT/S&P Actuaries World Indices Unit. The FT/S&P Actuaries World Indices are jointly owned by FT-SE International Limited, Goldman Sachs & Co. and Standard & Poor's.

COMPANY RESULTS DUE

Proton set to benefit from stronger currency

Perusahaan Otomobil Nasional (Proton), the Malaysian car maker, is expected to report next week year to March net profit of M$320m-M$352m ($140m) up from M$232.1m the previous year, according to analysts' forecasts.

Analysts said the growth in profitability will come mainly from the stronger Malaysian dollar against the yen and the increased production of cars during the period.

However, they said Proton's reliance on the domestic market may curtail its future revenue and profit growth.

One analyst said Proton was able to obtain government approval to raise its car prices last year, based on the yen's earlier strength.

"They would not reduce their prices despite the lower yen [now]," he said.

He said the low selling price of the Proton Wira 2.0 diesel model, which was introduced into the domestic market early this month, was an indication of how the lower yen had reduced Proton's production costs.

Proton benefited from higher margins after increasing its prices by 5-10 per cent in September on the back of a strong yen.

Analysts also attributed the higher profit to the company increasing production by an estimated 10-15 per cent during the term.

The increased production will translate into higher sales as demand in the local market can easily absorb the additional supply, they said.

A Peregrine research analyst said: "Proton is a straightforward buy. There are not a lot of good motor stocks around."

He said in the immediate term, Proton's drive to reduce costs by 5 per cent every year should result in increased margins.

In the long term, the growth in production will also bring economies of scale, he said. However, analysts were generally less bullish on Proton's long-term outlook.

"I will call it a trading buy but it is certainly not a long-term investment stock," said an analyst with a foreign house.

He said Proton will be able to sustain its profit growth up to 1997 but then "the domestic market looks like it is becoming saturated".

He said Proton will have to look to overseas markets to sell its increased production. "From what I understand, Proton is not making much [profit] from its export sales," he added. A local analyst said the yen could also easily appreciate against the Malaysian dollar this year and limit profitability.

Analysts said Proton was currently unable to compete against international rivals on quality, cost and design and relied too much on the domestic market. They said Proton would not survive the competition if the government opened up the car market now.

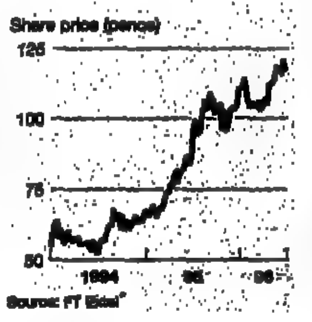
"The government will drag its feet [on this] as long as possible," the Peregrine analyst said.

"But this will be the persistent cloud over Proton."

The Estimate Directory compiled by Edinburgh Financial Publishing gives a consensus forecast for the year to March 1996 of net profit of M$379.8m, (M$232.1m), rising to M$352.3m the following year. *AFX-Asia, Kuala Lumpur*

Asda

Share price (pence)



Source: FT Extel

■ **Asda**, the UK's fastest growing food retailer, is expected to report a rise of almost 20 per cent in annual pre-tax profits on Thursday, up from £257.2m to about £300m ($459m).

Chief executive Archie Norman and his team have made a habit of healthy gains, having boosted sales by offering better service and broader ranges, achieving low prices and reviving the brand image.

Analysts expect profits of about £335m for the current year. The main fear is that Mr Norman may not stay at Asda forever.

■ **British Biotech**, the UK's biggest biotechnology company, releases its full year results on Thursday. The announcement is unlikely to affect the company's share price because biotechnology company valuations depend on the progress of drugs in clinical trials – good news increases the chances of the drug being a big seller – rather than the level of losses incurred in research.

British Biotech is likely to show a pre-tax loss of about £36m. Income, mostly from deals with pharmaceuticals companies and interest on the cash pile, could reach £4m.

The company said last week that its main cancer drug marimastat had entered the final stage in clinical trials. There is unlikely to be further important news of drugs in research until later in the year.

■ **Lonrho** investors are hoping interim results on Friday will be accompanied by new moves to achieve its planned withdrawal from platinum production.

Plans to merge them with rival producer Impala were blocked by European competition authorities. Some analysts predict a demerger if Impala's appeal to the European Commission fails.

With former chairman Mr Tiny Rowland departed, chief executive Dieter Bock now has a free hand to refocus the business.

A pick-up in the company's African plantations, and growth in vehicle distribution there, are expected to lift pre-tax profits from £62m into the £60m-£65m range.

■ **Halma**, the manufacturer of electronic detection and measurement equipment, is expected to resume its habitual 20 per cent a year profit growth when it reports full-year figures on Tuesday.

HSBC James Capel, the company's broker, is forecasting a pre-tax profit of £35m, with a matching rise in the dividend.

Sales of fire detection and safety equipment are expected to have been particularly strong, making up for 1995, when hiccups pegged the company's advance at 17 per cent.

■ **BPB Industries**, Europe's biggest plasterboard maker, is expected to announce a rise of just 1 per cent in pre-tax profits to about £165m for the year to March 31 on Thursday, after an exceptional write-down of almost £8m.

The group has suffered from a bad winter and slow German and French markets.

But this year should be better, with analysts expecting profits of about £180m.

Compiled by AFX News

INTERNATIONAL EQUITIES By Antonia Sharpe

Ina highlights convertible mileage

By Antonia Sharpe

The launch last week of the Italian government's $2.1bn offering of bonds exchangeable into Ina, the insurance company, has crowned 1996 as the year of the convertible bond.

Hopes have been running high that issuance of equity-linked bonds in 1996 will make up for the shortage of deals last year and the high level of redemptions this year.

Believers have not been disappointed. According to Euromoney Bondware, issuance of international equity-linked bonds so far in 1996 has reached $15.4bn, more than last year's total of $15bn. If deals continue at this pace, volume in 1996 will beat the 1994 high of $23.2bn.

The long-awaited Ina offering has been a significant achievement both for the Italian government and for the convertible bond market as a whole.

It has provided the government with a neat way to dispose of its residual stake in Ina, since the poor performance of the share price since privatisation two years ago ruled out a further equity offering. The warm reception given to the offering, the first time a Group of Seven nation has used this structure, should encourage other governments to consider the exchangeable bond as a way out of similar predicaments.

By issuing exchangeable bonds, Italy has not only saved itself at least $130m in funding costs, because the coupon on the bonds is much less than on a straight bond, it has also shown that it is willing to listen to new ideas which will attract international investors back to its privatisation programme, after the disappointments of recent years.

The strong response to the offering, which was subscribed eight times, suggests that this strategy is paying off. It has also given the government, which has at least two more privatisations planned this year, a good insight into the global interest for Italian equities without cannibalising that demand.

But bankers are not so pleased about one detail – the fees have been set at 2 per cent, below the traditional level of 2.5 per cent. Goldman Sachs said the lower fee reflected the large size of the transaction but the view in the market is that future issuers will fight for the lower fee.

While allowing the Italian government to come up smelling of roses, the offering has also highlighted the versatility of the convertible bond. Because of its hybrid nature, it has traditionally been seen as an instrument which only appealed to dedicated convertible bond funds.

However, uncertainty in recent months about the direction of global bond and stock markets has broadened the attraction of this defensive instrument to the much greater pool of fixed-income and equity investors.

About 60 per cent of the dollar-denominated tranche of the offering was sold to dedicated convertible bond investors; the proportion of the lire-denominated tranche was a much lower 25 per cent. The bulk of the latter tranche was bought by institutions with holdings in Italian equities or bonds.

As recent offerings from Daimler-Benz, the German industrial group, and Sumitomo Bank of Japan have also shown, the Ina offering reflected the growing currency diversification of the international convertible bond market where issuance was once restricted to dollars or Swiss francs.

The heavy oversubscription evident in recent issues suggests there is still a lot of mileage left in the convertible bond market.

There have been fears that the recent flood of issuance will swamp the market, but such concerns appear unfounded, provided that issuers do not become too greedy about pricing.

FT/S&P ACTUARIES WORLD INDICES

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NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY JUNE 21 1996 US Dollar Index	%chg since 29/12/95	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 29/12/95	Gross Div Yield	THURSDAY JUNE 20 1996 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (79)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Austria (25)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Belgium (27)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Brazil (28)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Canada (99)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Denmark (30)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Finland (23)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
France (87)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Germany (60)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Hong Kong (59)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ireland (16)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italy (59)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japan (481)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Malaysia (107)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
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Netherland (19)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
New Zealand (15)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Norway (35)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Singapore (44)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
South Africa (43)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spain (37)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
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United Kingdom (200)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
USA (627)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Americas (772)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Europe (714)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nordic (136)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Pacific Basin (931)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Euro-Pacific (1645)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
North America (726)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Europe Ex. UK (514)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Pacific Ex. Japan (350)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
World Ex. US (1735)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
World Ex. UK (2162)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
World Ex. Japan (1881)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
The World Index (2362)	213.39	5.5	205.41	147.01	169.61	183.77	8.0	2.11	212.89	204.74	145.66	168.72	182.04	214.70	184.49	186.73

هكذا من الاصل

MARKETS: This Week

NEW YORK By Richard Tomkins

US stock indices posted some of their best gains in nearly three weeks late on Friday, but the trading was related to the "triple-witching" expiration of certain options and futures, so it gave little guidance to underlying trends.

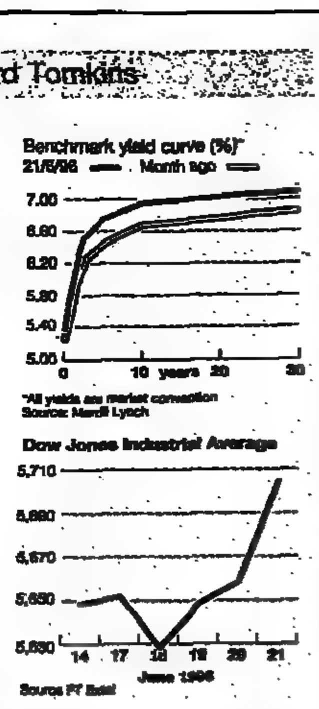
In fact, stocks and bonds will probably be searching for direction this week in the run-up to the meeting of the Federal Reserve Open Market Committee on July 2 and 3 – not least because of the paucity of economic data due out over the next few days.

Stocks and bonds have already factored in an acceleration of economic growth in the second quarter, but it is still not clear whether growth in the second half will slow enough to keep it below the inflationary threshold. Some believe it will, prompting the Fed to leave interest rates unchanged: others expect a firming of 25 basis points.

On Friday, the pace of growth in the first quarter will be revisited when the final figure for first-quarter gross domestic product is published, but analysts expect no significant change to the previously-published figure of 2.3 per cent. More attention is likely to be focused on Wednesday's figures for May durable goods orders, with the median forecast predicting an increase of 1.1 per cent.

Other points of interest will be Friday's publication of the Chicago Business Barometer index of manufacturing activity, with Salomon Brothers predicting a rise to 54.5.

But for bonds, the main (and most bearish) feature of the week may prove to be the supply that hits the market with the sales of Treasury two-year and five-year notes tomorrow and Wednesday, while equity investors will be watching out for profit warnings as the second quarter draws to an end.



LONDON By Philip Coggan

Rival summer attractions took much of the interest away from the UK markets last week, and with the start of Wimbledon today, it may take some startling news to spark trading activity.

The main interest this week will be in figures on April and May trade and the first-quarter current account. Mr John Sheppard, chief economist of Yamaichi International (Europe), is looking for "a modest deterioration in these numbers".

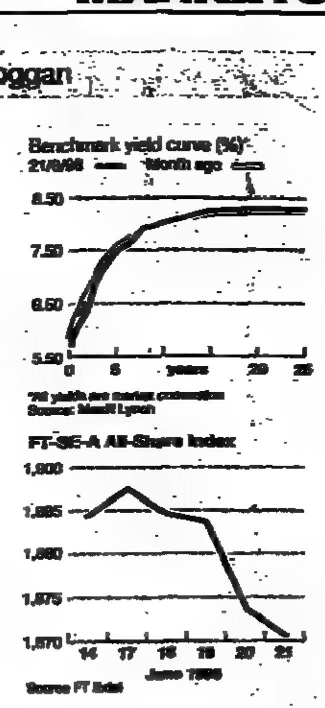
The main excitement in the gilts market will be a £3bn auction of five-year floating-rate notes on Wednesday. As last week's higher than expected public sector borrowing requirement figures showed, government appetite for issuing debt is unlikely to diminish soon.

Equities seem to be stuck in a narrow range, with political uncertainty limiting the upside but with prospects for further interest rate cuts, earnings growth and takeover activity offering some support.

The All-Share index dividend yield remains below 4 per cent, which many see as a continuing constraint on the market.

However, Mr Ian Harnett of SGST Securities says investors have not been desperately searching for yield, pointing out that: "In the first six months of the year, the top six performing sectors have gained an average of 22 per cent and yield an average 2.6 per cent".

He says a bad sign for the market is when the spread between the highest and lowest yielding sectors has been narrow. At the time of the 1987 crash and the 1994 correction, the highest yielding sectors offered less than 5 per cent and almost all sectors less than 4 per cent. At the moment, the spread is fairly wide and Mr Harnett believes there is little pressure for a significant correction.



FRANKFURT By Wolfgang Münchau

The rise in the headline M3 rate in May of 10.5 per cent has put paid to any lingering hopes of a fall in German short-term interest rates for the time being, as the Bundesbank looks increasingly at risk of missing its M3 target range of 4 per cent to 7 per cent.

Most German economists agree that the security repurchase (repo) rate will remain stuck at 3.30 per cent for the time being, but they disagree on whether the next movement in the repo will be upwards or downwards.

The German bond market has had a difficult time in June, with the current average yield having risen by almost 30 basis points to 6.07 per cent.

The rise was heavily influenced by strong US labour data which analysts say point towards robust economic growth.

Bond markets tend to react with inflation fears to such data, even if there is no underlying evidence.

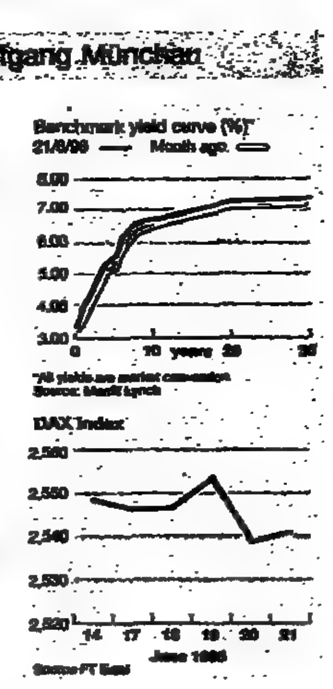
Inflation also remains low in Germany, with the consumer price index up by just 1.7 per cent in May.

No pressure on prices is expected from this year's wage round, after the public sector last week settled for a moderate lump sum increase for this year, and for a 1.3 per cent rise in 1997.

The German stock market has continued to move sideways, albeit it at a high level, with the DAX index at one stage hitting a record level of 2,578.

The lack of new company data has added to the calm in stock markets, with analysts predicting no great changes in either direction.

Everybody seems to be waiting for news about the economic recovery. The first cautious indications have arrived, with a rise in pan-German order levels and an increase in the IFO business confidence index.



TOKYO By Emiko Terazono

Investors will be focusing on whether the Tokyo stock market will be able to remain above the psychological barrier of 22,500 reached last week. During the past 10 years, trading has been most concentrated around 22,000 to 23,000, creating a strong technical resistance for the Nikkei index.

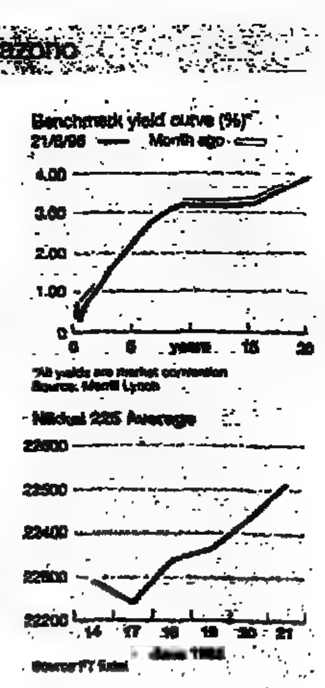
One reason for investors to be optimistic about the market's course is the return of foreign investors, who have been absent over the past few weeks after the rally at the start of the year. According to the Nihon Keizai Shimbun, the leading business daily, trading by overseas investors accounted for about 30 per cent of total volume on Friday.

On the other hand, the Nikkei index remains vulnerable to profit-taking. It closed up by only 1 per cent on the week, reflecting selling interest which still remains around the 22,500 level.

In addition, uncertainty over short-term interest rates increased following the release of strong GDP figures last week. If such worries resurface, profit-taking could hit such sectors as car companies, where stocks have been hitting all-time highs.

On the bond market, the GDP figures have reignited speculation that the central bank could bring forward the timing for raising short-term market rates. The Bank of Japan last week checked a rise in the overnight call rate above the 0.5 per cent official discount rate through easier market operations.

The market consensus is still that the bank will shift monetary policy after the release of the September tankan, or quarterly survey of business sentiment. However wariness prevails and economic figures confirming the continued upward trend of the economy could create volatility.



COMMODITIES By Kenneth Gooding

Gold's behaviour puzzles

The annual Financial Times Gold Conference opens in Venice today and not for the first time some delegates will be scratching their heads about the behaviour of the precious metal's price.

Gold was only a little above $383 a troy ounce on Friday and, according to traders, it was being caught up in the worries about the copper market following the revelation by Sumitomo that its senior copper trader had concealed losses of $1.8bn.

There is bound to be some comment at the conference about this apparently incongruous connection. To some extent, all metal prices are being affected by the high deposits being demanded of copper traders. The London Metal Exchange has raised the initial margin on copper to an unprecedented $600 a tonne compared with the usual $200. The London Clearing House has taken in an extra $3.5bn and some other metals have been sold to provide this cash.

Also, traders pointed out that some computer trading systems link copper with silver and when copper falls so does silver. Similarly, some technical traders link silver – which reached a 15-month low last week at about $5.10 an ounce – with gold, hence gold's weakness in recent days.

This is all disappointing for those gold bulls who had hoped that the metal would have broken through $400 by now. Their optimism comes from the big gap last year between demand for physical gold and conventional supply – mine production and scrap.

The Gold Fields Minerals Services consultancy organisation in its recent annual review, estimated the gap was 682 tonnes. GFMS suggests it was filled by record hedging of future mine production and sales by central banks – both topics to receive attention at the FT Conference.

Meanwhile, the International Copper Study Group, which is sponsored by the United Nations, is meeting in Lisbon on Tuesday to see if copper market statistical reporting can be improved. The UK based World Bureau of Metal Statistics believes it has identified the problems that have made some data unreliable.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
IAT Group (Chile)	Fresh Del Monte (US)	Food	$534m	100% intent
Petronas (Malaysia)	Engen (S Africa)	Oil	$436m	New investment benchmark
News Corp (Australia)/ Softbank (Japan)	Asahi National Broadcasting (Japan)	Broadcasting	$383m	Foreign debut in Japan TV
Loewen Group (Canada)	Prime Succession (US)	Funeral services	$295m	Joint effort with Blackstone
Mayflower (UK)	Pullman (US)	Car components	$228m	Trumped by Tenneco
Compass (UK)	Eurest France (France)	Contract catering	$111m	Buying out Sodexho
ING (Netherlands)	Pacific Mutual (Australia)	Financial services	$78m	Buy via local arm
LG Group (S Korea)	Petrobank (Poland)	Banking	$60m	Pathfinding investment
BPB Industries (UK)	El Volcan (Chile)	Plasterboard	$58m	Renewing international growth

OTHER MARKETS Compiled by Michael Morgan

PARIS

The demerger of Chargeurs, the French communications and textiles group, into two separately quoted businesses takes effect today.

Pathé will take on the communications and media interests, including a 17 per cent stake in BSkyB and a 20 per cent stake in the Canalsatellite broadcasting network.

Chargeurs International will control the textiles and surface coatings businesses.

Existing investors will receive one Pathé share and one Chargeurs International share for each existing Chargeurs share. Analysts expect the Pathé share to draw more investor attention, and have valued it around FFr1,300.

For Chargeurs, there is a wide target range, from FFr150 to FFr350 a share.

HONG KONG

Futures activity is expected to dominate what is set to be another quiet week, *writes Louise Lucas*. A combination of summer holidays, a lack of fundamentals to drive market direction and a wait-and-see attitude towards US data is likely to suppress turnover and dampen performance.

Longer-term, brokers are divided on how high the benchmark Hang Seng index can go. It closed on Friday at 10,855.29, and Jardine Fleming Securities says it stands by its target of 12,000 to 13,000 by the year-end.

NORDIC

Most of the feel-good elements are in place for a traditional summer rally in the Nordic markets, according to UBS. Interim results – such as those from paper companies in Finland and Hennes & Mauritz in Sweden last week – have come in above expectations while optimism has been rising in the Swedish bond market, where the spread to Germany is down to 170 basis points.

UBS says companies are cautious on current market prospects, but most will buy the received wisdom that an improvement will start showing through at some point in the second half. Of increasing importance will be the ability of investors to look through foreign exchange hedging figures in 1996 accounts to spot the real generators of earnings growth in 1997.

MILAN

A fairly downbeat assessment of the short-term outlook for Italian equities has been emerging from fund managers.

While last week's supplementary budget and a widely expected reduction in official interest rates may lure a few more foreign investors to the market, they reckon Milan has seen the best of its gains.

There is a broad consensus that foreign demand holds the key to the market's direction. But while the fund managers say the long-term outlook is fairly promising, the complicated political picture raises doubts about whether foreign investors will be big buyers in the near future.

BONDS

European convergence plays were very much intact last week, with Italian, Spanish, and Swedish bonds all gaining further ground over core markets, *writes Richard Lapper*.

Italy led the charge, with the yield spread of its 10-year bonds over German bunds, dropping to only 287 basis points, a fall of a quarter of a percentage point on the week. Spanish spreads fell by 26 basis points to 233.

Italian money market contracts also gained ground, with the September three-month eurolira contract settling on Friday at 92.07, a rise of 0.28 on the week.

Falling inflation and the expectation of interest rate cuts have fuelled investor interest and this week could see some further outperformance, especially at the short end of the curve.

Many analysts, however, are now recommending that investors take profits in the 10-year sector. Mr Graham McDevitt, senior bond strategist at Paribas Capital Markets, does not expect Italian and Spanish spreads over bunds to fall much below 275 and 225 basis points respectively.

CURRENCIES By Philip Gawith

Foreign exchanges set for quiet trading ahead of G7

Foreign exchanges look set for a quiet week ahead of the G7 meeting in Lyon, where exchange rates will feature on the agenda for discussion.

Mr Robert Rubin, the US Treasury Secretary, said on Friday that a paper would be released at the summit on foreign exchange markets and other international reforms designed to make the world economy more resistant to shocks like the Mexican peso crisis in December 1994.

Whether the paper has the potential to affect exchange rates is difficult to predict.

Following a mid-month bout of nerves, the dollar finished last week in firmer shape and may well be poised to try to break through Y110. The Bundesbank continues to make the right noises about a stronger dollar, but its rally against the D-Mark still lags behind its performance against the yen. Last time the dollar was around Y110, in early 1994, it was above DM1.70, compared with DM1.5350 now.

Arguably the main focus from a dollar perspective at present is when the Federal Reserve will decide to tighten monetary policy.

There will be little fresh US data this week, and the market is likely to focus its attention on the employment report next Friday, which will provide the background for the next FOMC meeting on July 2–3. Although raising rates is likely to have a less dramatic effect than in 1994, it is still the sort of policy decision that can prompt sharp exchange rate movements.

With the main exchange rates at levels of which most governments approve, the G7 is unlikely to have much to say – beyond re-affirming that rates have moved more into line with fair value.

A host of Japanese data releases this week is expected to quell fears of an early rise in official rates following the extremely strong first-quarter GDP figure last week. Despite this, economists at IBJ International in London believe the economy's recovery is looking "more and more sustainable".

They are predicting that the Bank of Japan will raise interest rates after the September tankan report.

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, June 21, 1996. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

		£ STG	US $	D-MARK	YEN (X 100)
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

MARKETS: This Week

INTERNATIONAL BONDS By Peter Montagnon

China keeps on coming back to borrow more

China's Ministry of Finance is one of those rare, and therefore prized, customers of the international capital market which does not really need to borrow any money, but decides to do so just the same and then comes back for more.

Within the next few weeks it is due to launch a global bond under the lead of CS First Boston and Morgan Stanley. The deal follows a $400m issue in New York in March, which included a bold $100m, 100-year tranche.

Terms are still being finalised, but market expectations are that the new deal will be for at least $500m and carry a maturity of around 10 years. China has a shelf registration in New York which would allow it to raise $1.1bn, depending on demand.

But with official reserves standing at over $80bn at the end of March and heavy inflows of direct investment, some bankers have been wondering why the ministry has been going to so much trouble.

Mr Joe Zhang, an economist with W. I. Carr in Hong Kong, says Beijing has succumbed to aggressive marketing pressure from international investment banks anxious to boost their own fee income. The orthodox explanation is that the borrowings are designed to keep a flagship presence in the market and to extend the maturity profile of China's debt.

"We want to establish a channel between China and the international markets, and set a benchmark for other institutions," says Mr Liu Zhongli, finance minister.

The issue comes against a backdrop of a rapid rise in China's outstanding foreign debt. According to the People's Bank of China, Beijing's central bank, debt rose to $107bn last year from $98bn in 1994, making China the largest gross debtor nation in Asia. Since 1990 the debt has doubled; over the past 10 years it has more than quadrupled.

But China's ratio of debt service to exports remains low at only around 7.25 per cent. Mr Dai Xianglong, governor of the bank, says the debt total should be seen in the context of accumulated foreign direct investment of $140bn, and foreign portfolio holdings of $6bn in China's equity markets.

Unlike Mexico at the time of last year's crisis, China is not dependent on volatile short-term capital flows. Moreover, when currency holdings of banks and other institutions are added to official reserves, China has overseas deposits of $122bn, which is more than foreign debt outstanding, he says.

Such indicators show China's debt remains manageable, despite its rapid rise. Although the country's 100-year issue trades at a spread of some 300 basis points above US Treasury issues, shorter-dated issues are on lower spreads, some as low as 100 points. The country's long-term debt is rated A3/BBB, with a positive outlook from Standard & Poor's.

China has strict controls in place to prevent borrowing getting out of hand, but it will continue to grow over the next few years. The central bank's Mr Dai says he expects debt to continue rising by around $10bn a year.

There are, admittedly, some risks. China's credit standing depends on its continuing ability to export. Another trade spat with the US, an argument over the status of Taiwan, a crisis over bad debts in the country's ailing banking system, or an internal power struggle might cause confidence to erode.

For the time being, China looks well placed to take advantage of international investor interest in the yield pick-up available on developing country issues. Spreads on Chinese issues over US Treasuries have narrowed, although not markedly more than those on other developing country bonds.

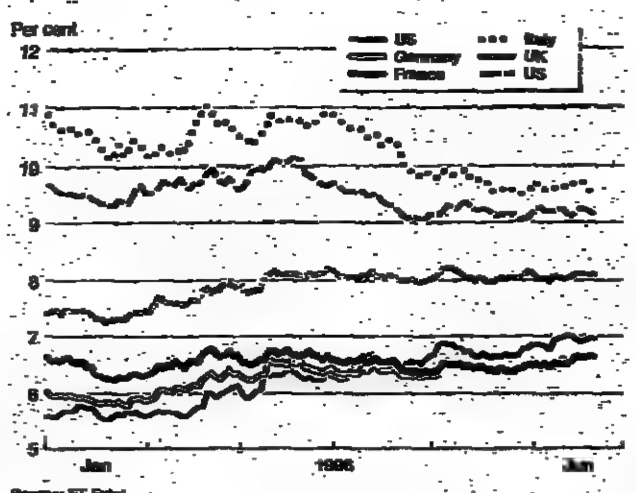
Others, such as Indonesia, are also planning to launch sovereign issues in what is widely seen as a favourable environment. Some bankers even expect that with China so well-received, its arch-rival India might even follow suit.

But China's determination to exploit its strength in the international market has its flipside in weakness of its domestic capital market. Most bankers say China needs to develop its domestic bond market, so as to become less reliant on foreign debt, especially for infrastructure projects.

Mr Zhang of W. I. Carr says that will take at least five years, but China "desperately needs" to mobilise its domestic savings more effectively. Without strong efforts in that direction, the present international glow will eventually fade.

China's determination to exploit its strength in the international market has its flipside in weakness of its domestic capital market

10-year benchmark bond yields



Source: FT Extel

INTEREST RATES AT A GLANCE

	USA	Japan	Germany	France	Italy	UK
Discount	5.00	0.50	2.50	4.90*	9.00	5.75†
Overnight	5.25	0.38	3.19	3.71	8.81	5.63
Three month	5.38	0.59	3.32	3.85	8.71	5.59
One year	5.84	0.93	3.64	4.20	7.92	6.00
Five year	6.73	2.35	5.45	5.71	8.77	7.48
Ten year	6.95	3.29	6.50	6.58	9.47	8.02

(*) France-[illegible] (†) UK-Base rate. Source: [illegible]

EMERGING MARKETS By Tony Walker

Locals fuel Shenzen B-share surge

China's Shenzen B-share market for foreign investors has been on a roller-coaster ride for several weeks, with wild fluctuations reminiscent of the first months of the country's stock market experiment in 1992.

But in a sign of things to come, it was not foreign investors who were pouring funds into the B-share market, but locals with the means to buy stock – which is denominated in Hong Kong dollars. It is estimated that about a third of Hong Kong's issued currency is circulating in China's southern provinces, notably Guangdong.

By the middle of last week Shenzen B-shares were up about 60 per cent since January 1, making the Shenzen B-index easily the best performing Pacific rim index for the year, but by the end of the week some of initial euphoria had worn off.

Foreign fund managers were responsible for much of the selling, taking advantage of the stronger market to recoup losses suffered in the past two years during which China's markets have been in the doldrums. It was fortuitous for fund managers, some of whom have been "under water" on their China holdings for several years, that a selling opportunity presented itself so close to the end of the financial year.

Shenzen's surge – the exchange's 34 B-shares carry a total market capitalisation of just over $1bn – was attributable to encouraging noises from local officials about the need to enliven the markets. This carried a hint, but no commitment, to improve liquidity and add more stocks.

Such is the eagerness of the investing public that a "wink and a nod" were sufficient to bring a flood of funds into the market. In fact, there is not much the local authorities can do to boost the markets without Beijing's co-operation.

The China Securities Regulatory Commission (CSRC) has given no indication that it wishes to fuel a fresh surge, much less encourage the sort of overheated speculation seen in Shenzen this month. On the contrary, Beijing regulators seem intent on preventing speculative bubbles that hit market confidence when they burst, and risk spawning social instability among an investing public who do not fully comprehend the risks and rewards of a market-based system.

The Shanghai B-share market, denominated in US dollars, has provided an interesting contrast to Shenzen. Shanghai rose about 8 per cent last week before slipping back. Investors in Shanghai were influenced by Shenzen, but did not get carried away.

The Shanghai B-index still stands at about half the level of its peak of 105.78 on December 31 1993. The performance of the Shanghai bourse almost certainly provides a more accurate reflection of the real rewards available to investors in China markets than its southern counterpart.

With 38 stocks and a market capitalisation of about $2bn, the Shanghai market is double the size of Shenzen. But China's B-share markets are thin, with low trading volumes and are prey to speculative surges.

Mr John Crossman, chief representative in Shanghai of brokers, Jardine Fleming, said increased activity in the Shenzen and Shanghai B-share markets last week had, however, provided glimpses of things to come which would bring encouragement to foreign fund managers and brokers.

Involvement of locals in the B-share market would in time make these markets "more liquid and thus more attractive." In Shanghai, it is estimated that domestic investors hold about 20-25 per cent of stock but are responsible for 50-60 per cent of turnover. The situation is similar in Shenzen; although the percentage of locals holding Shenzen B-shares is now probably higher than in Shanghai after the recent buying spree.

One of the main complaints of brokers and fund managers about the B-share markets is their lack of liquidity. The CSRC's policy of the past several years of allowing only a dribble of new listings has not helped. But with currency convertibility now a reality – China announced last week it would make its currency convertible on the current account by the end of this year – prospects are for livelier B-share markets ... and further steps towards a merging of A and B-shares.

Mr Crossman said Shenzen might suffer a further correction but prospects for stabilisation and improvement in the market this year were promising. He noted that Shenzen B-shares were still on average trading at about 8 times 1996 earnings while the figure in Shanghai was about 11 times.

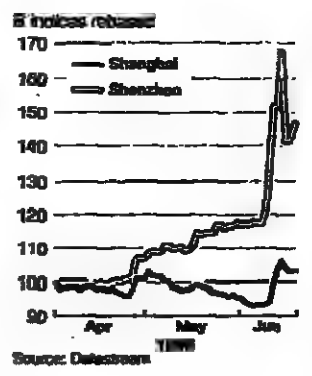
He expects China's economy to show further improvement this year with an easing of credit restrictions. This should provide a boost for many listed companies whose results in 1995 and first half of 1996 were dismal. "The impression is," he said, "this will be a good turnround year for China."

Interim results due in late August will give a sense of whether substantial improvement is possible this year. China's fickle markets would respond positively to any indication that the worst is over.

Mr Crossman said between $19bn and $22bn had been earmarked for investment in China funds, either those involved in direct investment, infrastructure or equities. A substantial proportion of this money had been held back, awaiting more positive economic signals in China, including an easing of the tight credit policy imposed in mid-1993 to curb an overheating economy and control inflation.

"Despite the pain, China appears to have managed a soft landing. This is the kind of management foreign investors want to see," he said.

China



Source: Datastream

ING BARING SECURITIES EMERGING MARKETS INDICES

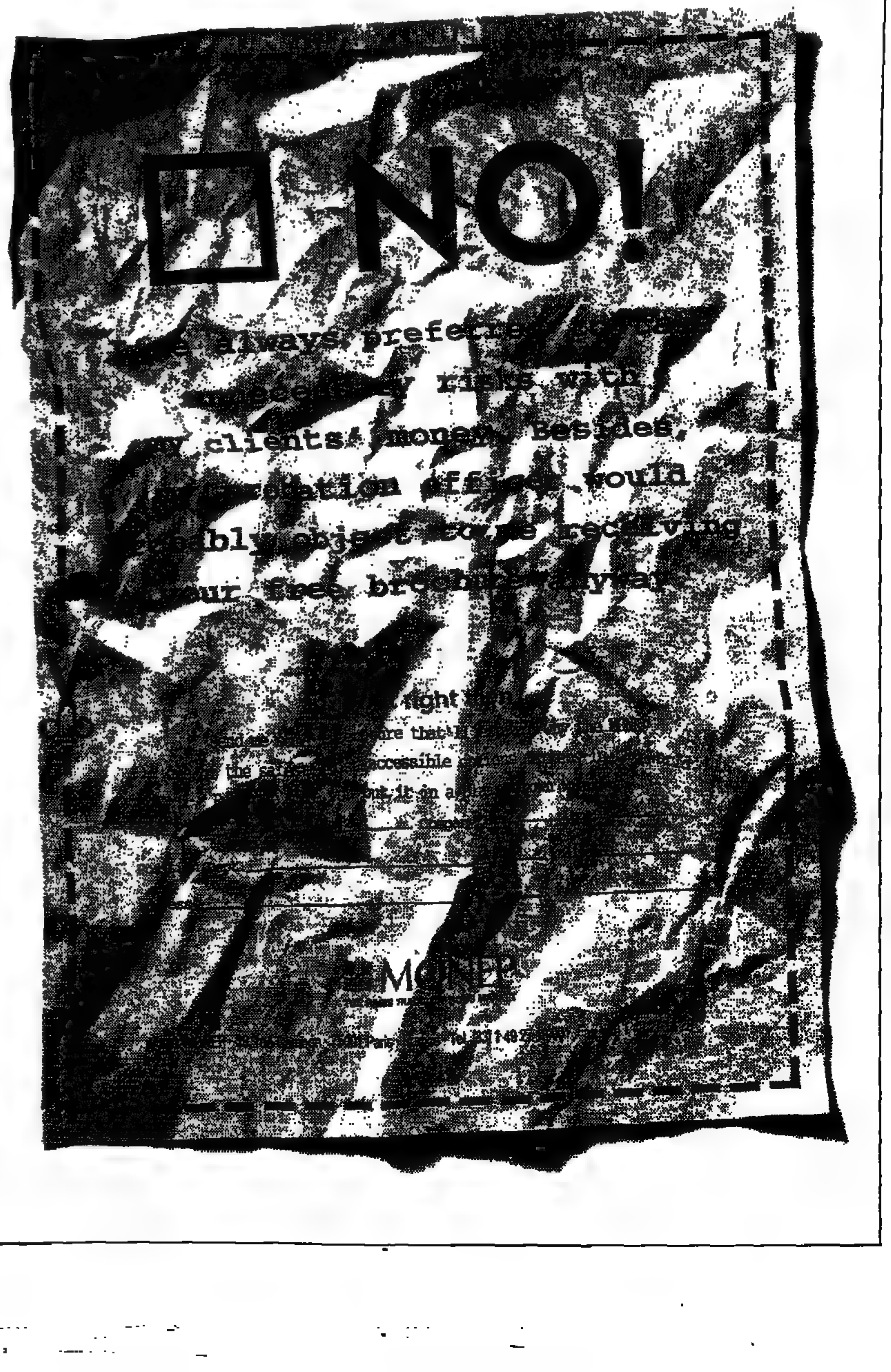
Index	21/6/96	Week on week movement Actual	Percent	Month on month movement Actual	Percent	Year to date movement Actual	Percent
World (395)	161.68	+1.31	+0.81	-0.56	-0.34	+14.12	+9.57
Latin America							
Argentina (22)	100.35	+0.40	+0.40	-5.27	-5.06	+7.57	+8.16
Brazil (23)	230.09	+12.04	+5.52	+3.27	+1.44	+43.65	+23.81
Chile (15)	190.50	-0.64	-0.33	+1.21	+0.64	-5.17	-2.64
Colombia (14)	170.65	+5.33	+3.22	-1.52	-0.88	+6.43	+3.92
Mexico (23)	83.13	-0.11	-0.13	-4.85	-5.27	+8.53	+11.36
Peru (14)	1,082.44	+22.96	+2.21	+26.28	+2.54	-6.51	-0.61
Latin America (112)	136.62	+3.06	+2.27	-2.08	-1.48	+15.45	+12.57
Europe							
Greece (18)	105.42	-0.77	-0.72	-1.31	-1.23	+7.45	+7.61
Portugal (23)	132.18	+0.89	+0.68	+4.03	+3.14	+15.74	+13.51
Turkey (26)	117.43	-2.10	-1.76	+3.48	+3.07	+34.63	+41.82
South Africa (32)	146.32	+0.68	+0.46	+2.62	+1.82	-7.05	-4.60
Europe (98)	123.76	+0.41	+0.33	+2.28	+1.86	+2.22	+1.83
Asia							
China (24)	43.03	+0.46	+1.03	+0.98	+2.22	+4.71	+11.87
Indonesia (32)	141.22	-4.12	-2.83	-10.81	-7.17	-2.57	+1.85
Korea (23)	118.10	-2.80	-2.18	-15.87	-12.02	-20.61	-16.20
Malaysia (24)	259.82	+3.80	+1.40	+0.05	+0.02	+32.46	+14.27
Pakistan (14)	90.98	-0.66	-0.72	-0.50	-0.55	+17.39	+23.82
Philippines (14)	333.05	+8.15	+2.52	+7.05	+2.17	+72.68	+28.12
Thailand (25)	237.56	-5.13	-2.11	-14.20	-5.64	-14.20	-5.64
Taiwan (31)	175.21	+0.03	+0.02	+19.73	+12.69	+44.39	+33.93
Asia (187)	224.92	-0.52	-0.23	-0.81	-0.27	+21.98	+10.77

All indices in $ terms, January 7th 1992=100. Source: ING Baring Securities.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book-runner
US DOLLARS							
CPR‡	200	Jul 2001	(a)	99.89R	-	-	BNP/CS First Boston
Rabobank Nederland(b)	200	Dec 1998	6.375	100.00R	6.397	+16(6%-98)	Bear Stearns Intl
ABN Amro Bank, Chicago Brch	750	Jun 2006	7.55‡	99.686R	7.552	[illegible]	ABN Amro/[illegible]
Bilbao Vizcaya Inv(f)§	250	Jul 2006	3.50‡	100.00	-	-	SBC Warburg
European Investment Bank(a)	200	Dec 1998	6.25	99.81R	6.357	-3(6%-98)	Daiwa Europe
Daimler-Benz NA America(a)	150	Dec 1998	6.60	100.025R	6.51	+16(6%-98)	Deutsche Morgan G'fell
Pakistan(g)‡	150	Dec 2000	(g1)	100.00R	-	-	Citibank International
Republic of Italy(h)§	950	Jun 2001	5.00‡	100.00	-	-	Goldman Sachs/IMI
FEN	250	Jan 2006	9.375‡	99.298R	9.467	+230[illegible]	JP Morgan/Salomon
CBA	350	Jul 1998	6.825	99.958R	6.841	[illegible]	Morgan Stanley Intl
[illegible]	700	Aug 2000	(i)	99.485R	6.79	+22[illegible]	Kreditbank Intl Group
MLCC Mtg Inv 96-B(j)★‡	475	Oct 2009	(j1)	100.00R	-	-	Merrill Lynch
Credit Libanais	60	Jul 1999	9.00‡	99.159R	9.722	+320[illegible]	Merrill Lynch Intl
BCEE(k)★	50	Jul 2001	(k1)	100.30	-	-	DKB International
Money Store Trust 96-B(l)	1.22bn	-	-	-	-	-	Lehman Brothers
Banco CCF Brasil	75	Jun 1998	9.625‡	99.385R	9.870	+315[illegible]	Merrill Lynch Intl
Federal Home Loan Mtg Corp(f)	300	Jan 1999	6.925‡	100.00R	6.925	+40[illegible]	JP Morgan Securities
Norddeutsche Landesbank	200	Jul 1998	6.375	99.83R	6.468	+4(W 2yr)	Nomura/SBC Warburg
Fairway Filmsentos(m)★	60	Jun 2001	(m)	99.697R	10.37	+380[illegible]	ING Barings
D-MARKS							
KfW International Finance(j)	300	Jul 2000	5.25	99.68R	5.284	[illegible]	ABN Amro Hoare Govett
Venezuela Investments‡(o)	100	Apr 2007	15.00‡	99.00R	15.31	-	Paribas Capital Markets
Rheinische Hypothekenbank(p)	2bn	Jul 2001	5.625	99.59R	5.698	+39(5¼%-01)	Commerzbank/Merrill/UBS
Barclays Bank(q)‡	350	Jul 2008	(q1)	100.60	-	-	BZW/Deutsche[illegible]
SSZ‡	300	Jun 2001	(l)	99.49	-	-	Lehman Bros Bankhaus
Deutsche Bau-& Bodenbank‡	250	Jul 2001	(l)	100.06	-	-	DG Bank
YEN							
BNG★	10bn	Jun 2006	(s)	100.20	-	-	IBJ International
Tokai Fin(Curacao)B10(t)★‡	20bn	[illegible]	[illegible]	100.00	-	-	Tokai Bank Europe
SWISS FRANCS							
THK Co(u)★§	120	Jul 2000	0.875	100.00	-	-	UBS
Niederoest LB Hypo	100	Jul 2000	4.25	102.40	3.595	-	SBC Warburg
DSL Bank(s)	125	Dec 2001	4.50	103.25	-	-	Credit Suisse
Bayerische Landesbank	160	Jul 2001	4.25	102.675	3.611	-	Credit Suisse
STERLING							
Bayerische Vereinsbank(s)	125	Dec 2000	7.50	99.50R	7.655	+12(8%-00)	ABN Amro Hoare Govett
Halifax Building Society	400	[illegible]	[illegible]	99.734R	8.782	+48(7½%-06)	BZW/CS First Boston
Swedish Export Credit(s)	200	Dec 2001	7.625	99.404R	7.779	+5(7%-01)	HSBC Markets
CCCX‡	200	Jul 2000	(x)	99.748	-	-	BZW
JFM(x)	150	Dec 2006	8.375	99.493R	8.46	+19(7½%-06)	CS First Boston
Homeloans(No 2) Cls A1(B1)‡	70	May 2028	(B2,a)	100.00	-	-	JP Morgan Securities
Homeloans(No 2) Cls A2(B3)‡	141	May 2028	(B4,a)	100.00	-	-	JP Morgan Securities
Acres (No 2), Class A(C)‡	98.45	Mar 2001	(C1)	99.94R	-	-	Lehman Brothers
RJB Mining‡	100	Dec 1997	(D)	99.96	-	-	BZW
Bristol & West B/S(L)‡	150	Jul 2001	(L1)	99.94	-	-	ABN Amro Hoare Govett
Banca di Roma, London Brch‡	100	Jul 2001	(0.1)	99.785	-	-	BZW
GUILDERS							
Crédit Local de France	125	Aug 2002	(E)	99.67R	5.98	+11(6¾%-02)	Generale Bank
FRENCH FRANCS							
Compagnie Bancaire(r)‡	2bn	Jul 2008	(c1)	99.60R	-	-	CCF
Bayerische Hypobank‡	1bn	Jul 1998	(M)	[illegible]	-	-	CCF
LUXEMBOURG FRANCS							
CCBP(f)	2bn	Dec 2004	6.75	[illegible]	6.39	-	[illegible]
[illegible]	2.2bn	Dec 1997	[illegible]	100.00	-	-	Dresdner Bank-KB
BCEE	3bn	Jul 2006	(k)	102.00	6.00	-	BCEE
Cregem International Bank(n)	2bn	Jan 2002	6.00	102.45	[illegible]	-	BIL
Daimler-Benz Canada(t)	2bn	Oct 2001	6.125	[illegible]	[illegible]	-	[illegible]
Commerzbank(p)	3bn	Dec 2002	6.25	102.75	5.73	-	BIL/Kredietbank
ITALIAN LIRE							
Bayerische Vereinsbank(d)	150bn	Jul 2001	(d1)	101.725	-	-	Credito Italiano
Republic of Italy(f)§	1420bn	Jan 2001	6.30§	100.00	-	-	Goldman Sachs/IMI
AUSTRALIAN DOLLARS							
Australian Industry Dev Corp	100	Jul 2006	9.125	101.835	8.841	-	ABN Amro Hoare Govett
GECC	100	Jul 1998	8.00	100.78	7.585	-	Hambros Bank
National Australia Bank(e)	75	Jul 2000	8.75	[illegible]	8.207	-	ABN Amro Hoare Govett
PESETAS							
Official Credit Institute‡	[illegible]	Jun 1999	(a)	100.00	-	-	NatWest Mkts, Madrid
Finnish Export Credit	10bn	Jul 2001	8.10	100.25	8.035	-	BSN/UBS
Moratoria Nuclear(h)‡	218bn	Mar 2020	(h1)	100.00	-	-	BBV/Morgan Stanley
CANADIAN DOLLARS							
Province of Ontario★	150	Jul 1999	6.25‡	100.00	6.250	-	IBJ [illegible]
DANISH KRONER							
Nordic Investment Bank(j)	400	Dec 2003	7.00	101.625	6.68	-	Den Danske Bank
ESCUDOS							
Crediop Overseas Bank‡	15bn	Jan 2003	(u,v)	100.00	-	-	CGD
NEW ZEALAND DOLLARS							
World Bank(y)	100	Jul 1999	8.00	101.05	8.598	-	Hambros Bank
Rabo Australia	100	[illegible]	9.25	[illegible]	8.685	-	Toronto Dominion Bank
GECC	100	[illegible]	9.25	100.96	8.785	-	Hambros Bank

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. §Convertible. ‡Floating-rate note. ¢With equity warrants. ★Unlisted. §Semi-annual coupon and yield. R: fixed re-offer price. [illegible] Note: Yields are calculated on ISMA basis.



WORLD STOCK MARKETS

EUROPE

AUSTRIA (Jun 21 / Sch)

BELGIUM/LUXEMBOURG (Jun 21 / Frs.)

CZECH REP (Jun 21 / Korunas)

DENMARK (Jun 21 / Kr)

FINLAND (Jun 20 / Mks)

FRANCE (Jun 21 / Frs.)

GERMANY (Jun 21 / Dm.)

GREECE (Jun 21 / Drachma)

ITALY (Jun 21 / Lire)

NORWAY (Jun 21 / Kroner)

POLAND (Jun 21 / Zloty)

PORTUGAL (Jun 21 / Escudo)

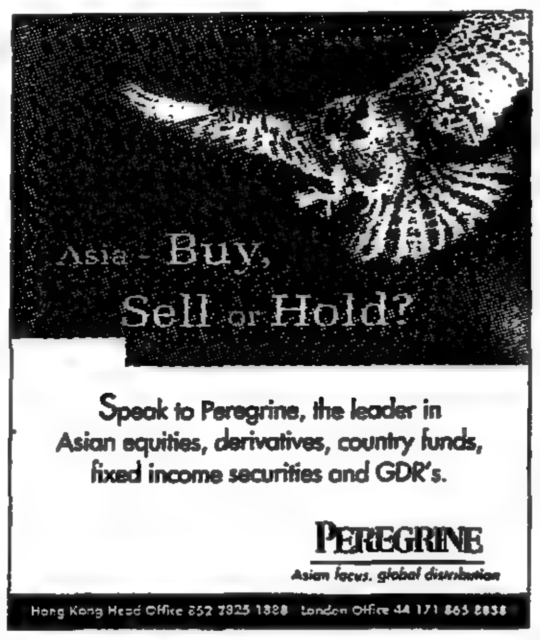
SPAIN (Jun 21 / Pta.)

NETHERLANDS (Jun 21 / Fls.)

SWEDEN (Jun 20 / Kronor)

SWITZERLAND (Jun 21 / Frs.)

TURKEY (Jun 21 / TK Lira)



PACIFIC

JAPAN (Jun 21 / Yen)

HONG KONG (Jun 21 / H.K.$)

INDONESIA (Jun 21 / Rupiah)

MALAYSIA (Jun 21 / MYR)

NEW ZEALAND (Jun 21 / NZ $)

SINGAPORE (Jun 21 / S$)

AUSTRALIA (Jun 21 / Aust$)

NORTH KOREA (Jun 21 / Won)

TAIWAN (Jun 21 / TW $)

THAILAND (Jun 21 / Baht)

AFRICA

SOUTH AFRICA (Jun 21 / Rand)

NORTH AMERICA

CANADA

TORONTO (Jun 21 / Can $)
4 pm close

MONTREAL (Jun 21 / Can $)
4 pm close

INDICES

	Jun 21	Jun 20	Jun 19	1996 High		1996 Low	
Argentina							
General(29/12/77)	18808.38	17837.72	17990.2	18861.88	20/6	13806.61	19/3
Australia							
All Ordinaries(1/1/80)	2255.6	2248.5	2233.2	2325.80	29/4	2187.40	11/2
All Mining(1/1/80)	1047.10	1041.2	1032.1	1118.40	8/5	1004.70	16/1
Austria							
Credit Aktien(30/12/84)	375.27	380.51	382.87	384.59	31/5	352.78	2/1
Traded Index(2/1/91)	1086.61	1101.36	1111.05	1142.81	28/5	976.27	2/1
Belgium							
BEL20(1/1/91)	1717.37	1716.36	1747.58	1773.28	28/5	1574.88	2/1
Brazil							
Bovespa(29/12/83)	60531.0	60230.0	58171.0	60531.00	21/6	40901.00	2/1
Canada							
Metals Mins♦(1975)	5160.8	5163.51	5192.66	5634.66	8/5	4687.47	18/1
Composite♦(1975)	5047.54	5057.58	5072.68	5228.90	22/5	4738.70	15/1
Portfolio§§(4/1/83)	2473.73	2485.42	2495.57	2588.55	27/5	2327.38	12/1
Chile							
IGPA Gen♥(31/12/80)	5519.86	5493.07	5495.57	5804.33	8/1	5215.28	8/4
Denmark							
CopenhagenSE(3/1/83)	405.86	404.97	403.54	407.87	28/5	366.48	2/1
Finland							
HEX General(28/12/90)	(c)	2012.92	2007.95	2078.42	31/5	1881.67	10/1
France							
SBF 250(31/12/90)	1422.84	1422.32	1436.33	1467.58	6/6	1250.18	2/1
CAC 40(31/12/87)	2084.18	2077.08	2100.70	2146.79	30/4	1867.85	11/1
Germany							

	Jun 21	Jun 20	Jun 19	1996 High		1996 Low	
Japan							
Topix(4/1/68)	1709.60	1700.53	1698.63	1718.88	28/4	1524.32	13/3
2nd Section(4/1/68)	2215.82	2211.45	2217.78	2249.29	2/5	2082.78	14/3
Malaysia							
KLSE Comp.(4/4/86)	1148.30	1148.33	1130.27	1180.84	30/4	993.10	2/1
Mexico							
IPC(Nov 1978)	(c)	3161.95	3210.88	3282.48	22/5	2226.30	8/3
Netherland							
CBS TRtnGen(End 83)	638.5	635.8	639.2	652.90	12/6	580.80	2/1
CBS All Shr(End 83)	377.8	377.2	378.1	[illegible]	[illegible]	338.70	2/1
New Zealand							
Cap. 40(1/7/86)	2094.91	2083.54	2086.81	2258.08	4/1	2008.14	7/3
Norway							
Oslo SE(Ind)(2/1/83)	1450.83	1450.41	1452.17	1468.71	12/6	1250.88	30/1
Philippines							
Manila Comp(2/1/85)	3212.23	3191.23	3188.83	3280.70	10/6	2578.97	2/1
Portugal							
BVL 30(4/1/93)	1838.14	1829.38	1823.87	1850.14	21/6	1589.24	2/1
Singapore							
SES All-S'pore(2/4/75)	584.83	582.11	581.86	608.37	5/2	558.80	2/1
South Africa							
JSE Gold(28/9/78)	1798.1♥	1802.8	1832.6	2309.40	29/5	1349.40	2/1
JSE Ind.(28/9/78)	8116.2♥	8160.0	8143.6	8739.30	25/1	7723.30	20/5
South Korea							
KoreaCmpEx(4/1/80)	854.27	861.72	860.56	986.84	7/5	838.87	13/3
Spain							

US INDICES

INDEX FUTURES

■ CAC-40 (200 x Index)

■ DAX

■ OMX

■ SOFFEX

■ S&P 500

■ Nikkei 225

■ RATIOS

■ NEW YORK ACTIVE STOCKS

■ TRADING ACTIVITY

FT FREE ANNUAL REPORTS SERVICE

■ TOKYO - MOST ACTIVE STOCKS: Friday, June 21, 1996

	Stocks Traded	Closing Prices	Change on day
Hokkaido Taku Bk	22.0m	345	+26
Nippon Steel Corp	15.0m	374	+6
Fuji Heavy Inds	11.6m	571	-2
NKK Corp	9.8m	329	+6
Hokkaido Bank	9.2m	403	+66

	Stocks Traded	Closing Prices	Change on day
Sumitomo Hvy Ind	5.6m	486	+7
Ishihara Sangyo	5.4m	433	-7
Mitsubishi Hvy	5.0m	941	+7
Sumitomo Mtl Ind	4.7m	336	+3
Isuzu Motors	4.5m	631	+6

IRELAND

Old certainties die in economic transformation

Increased prosperity as a result of EU membership has been accompanied by dramatic social and political change, says John Murray Brown

In Ireland, it used to be said that there are three things that will never change – the Church, the Fianna Fáil party and the Gaelic Athletic Association.

Today, only the hurlers and gaelic footballers seem assured of a stable future, as Ireland's political and social landscape is revolutionised.

As the coalition of Mr John Bruton prepares to take on the six-month presidency of the European Union, Ireland is barely recognisable as the country that voted overwhelmingly to join the European Economic Community in 1972.

No longer culturally insulated, Ireland feels itself to be firmly part of the European mainstream. Tastes have changed, along with experiences and expectations, as conservative political mores and a largely rural culture give way to an urban, pluralist and individualistic society.

To anyone returning after some years away, the transformation is stark. Dublin – like other leading European cities – is now cosmopolitan, exciting and increasingly expensive. Much to the chagrin of some of the city tourism chiefs, it has recently been dubbed the "stag night capital of Europe".

The feel-good factor is unmistakable. Car sales are at record levels, as are house prices. Ireland now has one of the highest levels of home ownership in the world – one reason why it is imperative for politicians to keep interest rates down.

At an official level, too, there is a palpable self confidence. "European membership has added to rather than diminished our sovereignty," says Mr Michael Mulcahy, a Fianna Fáil senator.

Mr Ronan Fanning, professor of modern history at University College Dublin (UCD), concurs: "The experience has been psychologically liberating for us, whereas for Britain it has been restricting."

Ireland no longer sits on the periphery with its hands out for the Brussels largesse. Investors are starting to look at the country for perhaps the first time. Mr David McWilliams, an economist with UBS, the Swiss Bank in London, estimates that in 1996 the Irish economy will grow at over three times the European average, making it comparable with the Asian Tigers.

"On the inflation front, Ireland's record has been, and should remain, vastly superior to that of the Pacific Rim. Thus, at a time when the rest of Europe is faltering, Ireland offers the investor emerging markets style growth with western European inflation," he says.

Notwithstanding the investment banker's natural propensity to hyperbole, Ireland's economic record gives the lie to those who feared that the so-called peripheral member states would remain a constant drain on Union resources.

Fuelled by a surge in the labour supply, Ireland has been the fastest growing economy of the European Union for the past four years. Gross national product increased by more than 7 per cent in 1995, according to the latest annual report of the Central Bank of Ireland.

Indeed, on debt, the budget deficit, and inflation, Ireland is currently one of only three countries – together with Luxembourg and Germany – that meet the Maastricht conditions for monetary union, according to the European Commission's latest report.

The combination of a tight fiscal and monetary policy and real wage moderation has ensured that Ireland will be in a strong position to participate. The current account is in record surplus, underlining competitive gains, despite the appreciation of the currency against that of its biggest trading partners.

Irish industrial policy, centred on targeting high-technology sectors and driven by a 10 per cent tax regime for manufacturing companies, has helped to fuel a 25 per cent increase in jobs since 1985, against the trend of greater joblessness in the rest of Europe. In 1995, Ireland created 45,000 new jobs.

Under the watchful eye of the National Treasury Management, a privatised agency entrusted with handling the country's I£30bn debt, service costs have been reduced in every year since 1991. With the strong growth in Gross Domestic Product, the debt/GDP ratio fell by 5 percentage points – from 84.1 per cent at the end of 1994 to an estimated 79.1 per cent at the end of 1995. According to Commission officials, Ireland is "approaching" the 60 per cent ratio outlined by the Maastricht treaty.

This rising prosperity has been accompanied by marked changes in social behaviour. Birth rates have fallen by a third in western Europe in the past decade. In Ireland the rate has halved.

The number of children born out of marriage – a phenomenon that was rarely heard of in Ireland – is also increasing, reflecting the diminishing influence of the Roman Catholic Church, whose role was, until the 1970s, enshrined in the Irish Constitution. In a referendum in November, voters gave their approval, albeit narrowly, to the introduction of legislation making divorce possible, marking a further erosion of the Church's hold over public opinion.

While in Germany and elsewhere in Europe, officials are worried about a demographic profile that will place the burden of supporting an increasing number of older people on a smaller workforce, in Ireland larger numbers, and in particular more women, are being drawn into the workforce, bringing female activity rates closer to European norms.

Twenty years ago, emigration was commonplace: up to a third of each generation left Ireland for a "better" life. Today, there is a reverse trend, as graduates come home, bringing with them new skills. Of those with a third-level education, 30 per cent have worked abroad. For the population as a whole, around 10-15 per cent have lived overseas.

Mr John Fitzgerald, an economist at Dublin's Economic and Social Research Institute, believes the real change lies in improvements to education, dating from the late 1960s when secondary education became free. "We were just 30 years later than the rest of Europe," he says.

Today, Ireland has one of the youngest and best educated populations in Europe. More than 50 per cent of school leavers go on to third-level education. One of the most striking statistics is that the highest rates of participation in third-level education are in Kerry and Mayo, two of the most rural and isolated counties.

All of this has had an equally turbulent effect on the complexion of Irish politics, with the smaller and newer parties – Labour on the left and the Progressive Democrats on the right – shaping much of the political debate.

A younger electorate is challenging the sterile divisions between the two main centre right parties, Fianna Fáil and Fine Gael, which have defined Irish political life since the civil war in the 1920s.

> The vote to legalise divorce marked a further erosion of the Church's hold over public opinion

The challenges are considerable. Ireland has approached previous EU intergovernmental conferences with the objective of securing financial support but as Mr Dermot Scott pointed out in a recent paper for the Institute for European Affairs, the country is for the first time not entering the current conference – aimed at simplifying and reforming the Union's structures to prepare for the accession of new members – with this expectation.

The key issues to be tackled by the IGC – enlargement, institutional reform, monetary union and the common foreign and security policy – are all vital to Ireland's interests. But Mr Dick Spring, the Irish foreign minister, says membership of the European Union should not be seen as a matter of money alone.

According to opinion polls, there is over 75 per cent support for Ireland's entry into a monetary union in the first stage of the single currency.

In principle, Dublin is committed to participating, but official enthusiasm contrasts with the scepticism of some economists. Ireland's options are complicated by the prospect that the UK, its largest trading partner, may choose to stay outside.

"We certainly wouldn't choose to have our own currency, if we were designing an economy now. But if the UK is not inside, we would have no instruments to cope. In the 1992 crisis [when Britain left the Exchange Rate Mechanism] with the stroke of a pen Irish exporters became uncompetitive," says Mr Brendan Walsh, head of economics at UCD.

The debate is also being conducted at a time when Ireland prepares to lose its status as an Objective One region, eligible for Commission support.

The country's income per capita is already estimated at around 88 per cent of the Union average. Unless it redesignates itself as a series of regions, Ireland will soon be ineligible for support. Nevertheless, many economists believe it is misleading to exaggerate "doomsday" predictions about what will happen when the current Community Support Framework runs out in 1999.

Many of the EU projects are based on matching funds being provided by the government. With the government unlikely to be willing to make up in full any EU shortfall, the number of projects able to proceed would be fewer.

EU structural funds, available for areas with less than 75 per cent of the Union average per capita income, are currently running at around I£1bn a year, and are an important part of the Irish budget and the balance of payments.

Goodbody stockbrokers in Dublin calculates that the current account surplus, now at 8 per cent of GNP, would be reduced to 2.5 per cent without the net flows from the EU.

Equally, the exchequer borrowing requirement (EBR), which in 1995 was 2.2 per cent of GNP, would increase without EU support to 7.7 per cent – outside the 3 per cent criterion set by Maastricht for members to join the monetary union.

However, it is unemployment that remains the significant blight on Ireland's record. Mr Richard Bruton, the minister for enterprise and employment, says the current economic growth has largely by-passed the long-term unemployed. Indeed, the latest figures suggest the long-term unemployment picture is getting worse, not better.

Mr Ruairi Quinn, the Irish finance minister, says defeating the scourge of joblessness, which is running at 12.7 per cent of the workforce, will be the real Emu test.

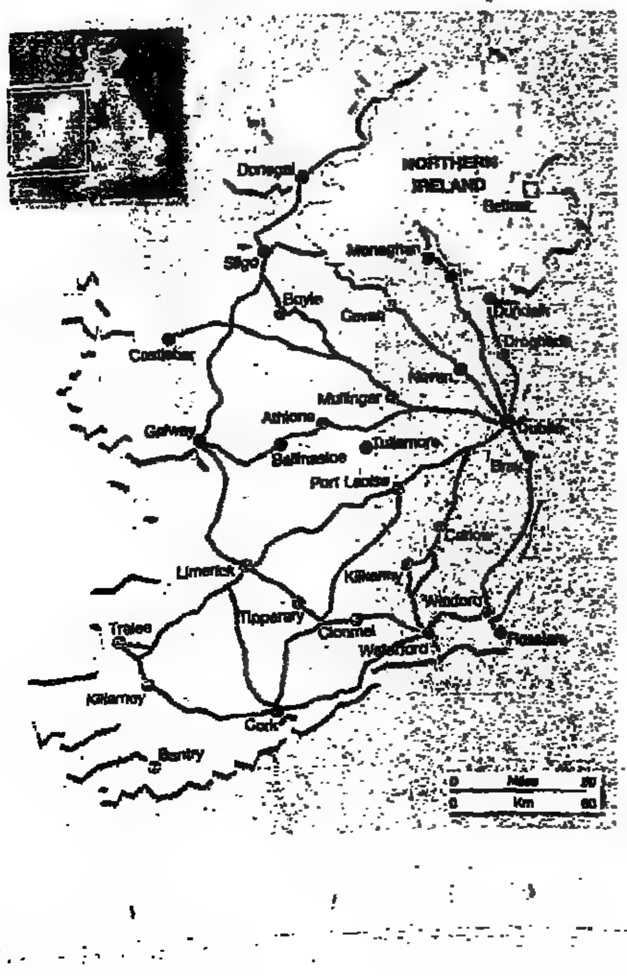
"Conventional market mechanisms will not resolve the problem of the long-term unemployed. But there will have to be different kinds of intervention. The problem is how do you place people into the market economy and not screw up your cost base?" he says.

Professor Walsh says it will be critical for the government to secure moderate wage increases, when it renegotiates the programme for competitiveness and work – a social pact that brings industry, labour and government together in an arrangement that exchanges fiscal concessions for wage moderation.

With a general election due next year, this is a time for the government to hold its nerve. The rewards will be great.

Dublin's Dáil, where politicians speak of the liberating effect of EU membership and prepare to meet the Maastricht criteria for economic and monetary union

Trinity College, Dublin: today, more than 50 per cent of Irish school leavers go on to third-level education



■ **Politics:** by John Murray Brown

Pragmatism in pursuit of power

Alliances between the parties could be redrawn in the run-up to next year's election

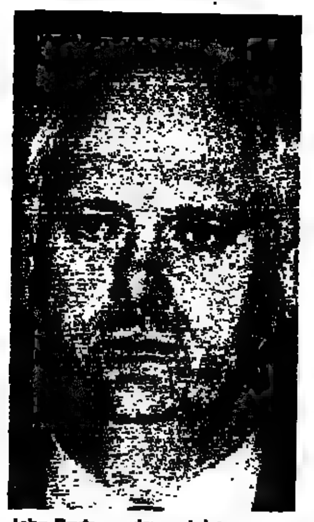
Principle is giving way to pragmatism, as Ireland's political parties enter the countdown to the next general election, which must be called before the autumn of 1997.

Although no party is likely to rock the boat while Ireland hosts the EU presidency, the first signs of internal strain are already discernible within the three-way coalition led by the Fine Gael party of Mr John Bruton, the prime minister.

As ever in Ireland's personality-driven politics, ideological battle lines are hard to draw. Mr Bertie Ahern's Fianna Fáil party, the main opposition party and Ireland's largest political organisation, is already eyeing up the small Progressive Democrats led by Ms Mary Harney.

Although there is little love lost between them, many observers believe that if the current three ruling parties – Fine Gael, Labour and Democratic Left – do not win enough seats to form another government, Fianna Fáil and Labour could again find themselves teaming up.

The situation remains fluid. The recent by-election wins by Fianna Fáil in Donegal East and Dublin West did much to restore party confidence in Mr Ahern's stewardship. A few months earlier, many pundits had blamed Mr Ahern for Fianna Fáil's poor performance in the Wicklow by-election, which was won by an independent.


John Bruton, prime minister


Dick Spring, Labour leader


Bertie Ahern, Fianna Fáil leader


Prionsias De Rossa, DL leader

Party strategists will be scrutinising the results. Labour will be particularly alarmed at the outcome in Dublin West where a breakaway militant candidate came within a whisker of taking the seat. More intriguingly, for the first time, Fine Gael transfers went to Fianna Fáil, the eventual winner.

Although no analyst is suggesting that this foreshadows a re-union of the two civil war parties at national level, the incident is further indication of the erosion of the sterile divisions that have for so long kept these two right-of-centre parties at loggerheads.

Fine Gael may actually find the idea of a union appealing, recognising that the party will never have enough votes to govern on its own. Ever pragmatic, Fianna Fáil officials point out that if their party cannot win outright it should make up the numbers by a liaison with one of the smaller parties, for the simple reason that it would then have to share out fewer ministerial portfolios.

In the last general election in 1993, it was Labour that emerged as the kingmaker, winning a record 33 seats and 19.3 per cent of the vote. The then recent election to president of Mrs Mary Robinson, Labour's candidate, was a key factor behind the party's success. Ironically, the party campaigned on the promise that it would not get back into bed with Fianna Fáil. As it happened, that was exactly what it did.

The current coalition emerged when the Fianna Fáil-Labour government collapsed in November 1994, over Mr Albert Reynolds's mishandling of an extradition case involving a paedophile Catholic priest.

That still vexes Labour rank and file, and some are adamant that another team-up with Fianna Fáil is not possible. For its part, Fianna Fáil is bitter about the way Labour was seen to engineer not just the fall of the last government but the public humiliation of Mr Reynolds.

Mr Dick Spring's personal standing as leader of the Labour party remains high, and he is widely credited as being the architect of the Northern Ireland policy but that does not appear to translate into votes for his party. As a European style left-of-centre party, Labour was widely held to have scored a victory when voters narrowly supported moves to legalise second marriages in a referendum in November, although there had been cross-party support for the reforms.

In many ways, the shape of the next government will depend on Labour's performance. The party, however, has been through a rough patch recently. Morale was hit by accusations of "sleaze" when a junior minister was discovered to be using official government-headed note paper to canvass support for a party function by Mr Ruairi Quinn, the finance minister.

Mr Spring, meanwhile, has faced continuing jibes about his use of the government jet to travel to his Tralee constituency.

The Labour leader's decision to employ his former key adviser, Mr Fergus Finlay, to help in the management of the electoral programme was seen as a clear sign of the party's mounting concern about its performance at the polls.

> The opposition, Fianna Fáil, could again find itself teaming up with Labour

Among Fine Gael supporters, too, there is growing internal dissent. Many backbenchers feel that too much was conceded by the party leadership in order to form an alliance with Labour and the Democratic Left, a party that was born out of the 1970s split in the IRA when some republicans abandoned the armed struggle.

In particular, there is resentment that Labour's ministerial team led by Mr Spring, the deputy prime minister and foreign minister, and his finance minister Mr Quinn (the first Labour politician to have held the finance portfolio) has largely eclipsed the performance of Fine Gael's own front bench.

However, Mr Bruton's advisers believe there has been a mood swing in the country. While some have criticised the prime minister for a low-key performance, his aides point to his improved standing in recent personality polls.

In the divorce referendum, Mr Bruton made a couple of timely interventions in order to win support for changes to the law. On Northern Ireland, however, he has, in attempting to extend a hand to the unionists, faced criticism for being too accommodating of the British line.

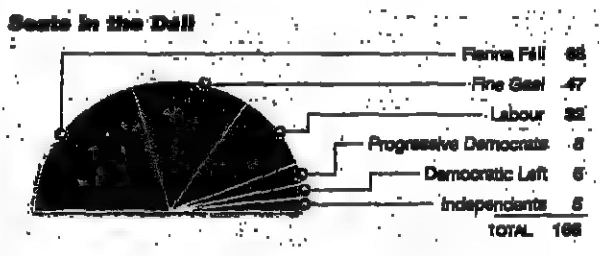
Perhaps Mr Bruton's central achievement has been to restore some propriety to the Taoiseach's office, something that will go down well with voters tired of the accusations of sleaze levelled at Fianna Fáil.

Most commentators believe the parties will keep their powder dry until the discussions for the 1997 budget. As the election day approaches, Mr Prionsias de Rossa, the DL leader, is unlikely to miss the opportunity to canvass some of his party's favourite ideas, centred on increased welfare spending.

All the parties are likely to want to be seen as champions of the cause of lower taxes, ahead of an election, with Fine Gael pushing for abolition of the residential property tax while Labour concentrates on reductions in pay-as-you-earn tax.

On Northern Ireland, there has been a fairly loose cross-party co-operation. On more than one occasion, Mr Bruton has applauded the Fianna Fáil leader for his trenchant criticism of the republican position. Fianna Fáil could, however, steal a march on Fine Gael if the all-party talks fail to make progress and the government is blamed by the public for having mishandled the peace process.

Seats in the Dail



KEY FACTS

Area	70,000 sq km
Population	3.6m
Head of state	Mary Robinson
Currency	Punt
Average exchange rate	1995 \$1=0.623 I£
	1996 \$1=0.635 I£[1]

	1995[2]	1996[2]
Total GDP (1990 prices I£m)	34,080	35,619
Real GDP growth (%)	7.2	4.5
GDP per capita (\$)	17,000	17,600
Components of GDP (1994, %)		
Private consumption	56	N/A
Total investment	14	N/A
Government consumption	16	N/A
Exports	72	N/A
Imports	-58	N/A
Annual percentage change in:		
Consumer prices (%)	2.5	3.0
Ind. production (%)	20.1	10.0
Unemployment (% of lab force)	12.9	12.5
Reserves minus gold (\$bn)[3]	6.5	N/A
3-month interbank rate (%)	6.3	5.6
Stock mkt growth (% pa)	20.62	15.89[1]
Budget balance (% of GDP)[4]	-1.9	-1.8
Current account balance (\$bn)	4.0	3.4
Exports (\$bn)	42.6	46.9
Imports (\$bn)	-31.7	-34.8
Trade balance (\$bn)	10.9	11.1
Main trading partners (1994, %)[5]		
	Exports	Imports
UK	27.5	36.3
Germany	14.1	7.1
France	9.2	3.6
US	8.4	18.3
Netherlands	5.5	2.8
Italy	3.8	2.2
EU	68.5	56.0

(1) Year to date. (2) EIU estimates, unless otherwise stated. (3) End period. (4) General government. (5) Share of world trade.
Source: Economist Intelligence Unit, Datastream.

■ **Foreign policy:** by Edward Mortimer

The UK dilemma

The Republic's links with Britain often compromise its role as a 'good' European


The European parliament, where British and Irish attitudes diverge

"An island behind an island." That description of Ireland's geographical situation still encapsulates its main foreign policy dilemma. It is only through membership of the EU (and before it the EC) that the Republic has obtained a degree of freedom to pursue national economic goals, where its interests differ from those of Britain. But membership could only be achieved in Britain's wake, and Ireland's position in the EU continues to be affected by Britain's attitude.

Until the 1960s, Irish foreign policy was directed mainly at achieving the fullest possible political separation from the UK, just as domestic policy aimed at cultural separation, emphasising the Catholic and Gaelic aspects of Irish identity. In 1949 Ireland not only became a republic and left the Commonwealth but also refused to join Nato, arguing that it could not become an ally of Britain so long as Britain was occupying a part of Ireland. Yet during that period Ireland remained economically dependent on the UK, which in 1972 still took 61.5 per cent of all Irish exports (against 26 per cent today).

Joining the EC in 1973 enabled Ireland to diversify its economic relations and to attract foreign investment. By joining the ERM in 1979 it also for the first time detached its currency from sterling. As a poor country with a large agricultural sector, it has benefited disproportionately from the common agricultural policy and structural funds. At the same time, it has industrialised rapidly, becoming a much more open economy and a more self-confident, cosmopolitan society.

Since the 1960s, Irish governments have also, in a sharp reversal of earlier policy, worked to soften the north-south division through rapprochement with Britain, marked by successive Anglo-Irish agreements culminating in the 1993 Downing Street Declaration and last year's Framework Document.

The fact that both states are members of the EU has probably made this process easier. But the process itself has developed outside the EU framework. Within the EU, Britain and Ireland are often on opposite sides of an argument. Ireland is a small country that sees itself as vulnerable in a world where states pursue their national interests at each other's expense. It sees a net gain in the pooling of national sovereignty and the strengthening of EU institutions. Also, as a net beneficiary of the EU budget, Ireland has an obvious interest in the preservation of the CAP and the structural funds, and very little interest in the admission of new member states in central and eastern Europe, whose claims on funds might be stronger than its own.

In its white paper on foreign policy, published in March, the government described its attitude to EU enlargement as "open and positive", but went on to insist that "enlargement must take place in the context of the deepening of European integration and the maintenance of the Union's key policies, notably in the area of agriculture and economic and social cohesion". The British position is almost the exact opposite: enlargement is not only highly desirable in its own right, but also because it will increase the pressure for CAP reform, will be incompatible with a redistributive approach to the budget, and will require a decentralised political structure.

This difference of approach may lead to some awkward moments during Ireland's EU presidency in the second half of this year. In the chair of the intergovernmental conference (IGC) revising the Maastricht treaty, Ireland will be pushing an agenda of closer integration, while taking care to safeguard the rights and influence of small member states, for instance their right to continue nominating a member of the Commission. "I am satisfied," said the Taoiseach, Mr John Bruton, last month, "that we will put paid to any suggestion that somehow the presidency of the Union is now beyond the capacity of small states."

Britain, by contrast, will be resisting closer integration but seeking to rejig the voting system to reflect the weight of population, and also to strengthen the influence of the larger member states in foreign policy. Only on security policy will there be some common ground between the two countries. Because it is anxious to preserve its neutrality, Ireland supports Britain's determination to keep a clear distinction between the EU and the Western European Union, a defence alliance that calls itself the "European pillar" of Nato. Even the government's proposal in its white paper to "explore the benefits" of Irish participation in Nato's Partnership for Peace programme – which Russia and several neutral countries have joined – provoked dissent from the Democratic Left, one of the parties in the ruling coalition, as well as an outcry from the opposition Fianna Fáil.

If the EU ever does acquire a defence dimension, or if (as is perhaps more likely) Ireland becomes a net contributor to the EU budget, an Irish Euroscepticism may emerge. For the moment, however, the Irish remain enthusiastic Europeans, held back only on some practical issues by the need to preserve ties with the UK. The most obvious example so far is their inability to join the Schengen treaty abolishing border controls between continental EU members. Since Britain refuses to do this, any Irish decision to join would involve the severance of the passport union between the Republic and the UK, and the erection of frontier posts along the border with the north.

A similar but more acute dilemma will arise if plans for economic and monetary union go ahead in 1999 with Britain exercising its right to opt out. The Irish would dearly like to be founder members of Emu, for both economic and political reasons, but will be loath to create a new barrier between north and south just when burgeoning economic links have become one of the most hopeful elements in the Northern Ireland peace process.

هكذا من الاصل

SPAIN

Constrained by its future and its past

Allegiance to a united Europe imposes tight economic targets, while the country's past carries legacies of red tape and patronage, writes David White

A conservative government takes over from a *left-wing government* after a general election. All a natural part of a *functioning* democracy, you might say. And it is; but in Spain it is worth bearing in mind that the last time this happened was in *November, 1933.*

The narrow victory this spring of Mr José María Aznar's centre-right Popular party completed a missing link in Spain's return to normal political life. The Socialists, *under Mr Felipe González, had* been installed for more than 13 years, initially against very weak opposition. The centrist party which governed before, in the initial *phase of restored* constitutional monarchy, instantly self-destructed and disappeared.

As a result of all this, Spain has only now, 20 years after emerging from dictatorship, reached the situation of having both a ruling party and a main opposition party with experience of government under a democratic system.

That other election – in 1933, and of unhappy memory – led to two years of general disintegration, three of civil war and 36 of General Franco. Spaniards, who until the end of this year will still be using coins with Franco's face on them, would like to think they have exorcised that period. But, *while Spain has become an* immeasurably more open and international society since its "transition", all the perverse effects of those four decades of *dictatorship cannot easily be overcome in 20 years of democracy.*

The scandal over the "dirty war" against Basque separatist exiles in France in the 1980s, which contributed to Mr González's electoral downfall, *reflects one of those legacies:* the fact that, while the Spanish military changed with a new generation of senior officers, the existing *security apparatus* was largely allowed to survive in the interior ministry, police *and paramilitary civil guard.* A continuing campaign of bombings and shootings by the Basque Eta group, begun in the late 1960s, can also be seen as a hangover from the past. The process of regional devolution, *one of the most profound* changes of recent years, still *has many loose ends that need* tying up.

The workings of business, meanwhile, continue to be hampered by labour laws inherited from the Franco era. The legal red tape and high *costs associated with redundancies* originated in a system which gave workers job security in exchange for quiescence, in a time before industrial restructuring, when unemployment was very low. They sit uneasily with a competitive investment environment and a jobless rate, according to the latest official survey, of 22.7 per cent.

The Instituto Nacional de Industria, a huge state holding *company set up in the 1940s,* was finally abolished last year, but only in name. A number of state interests, such as the northern coal mines, appear not only permanently unviable, but also inviolable, even under a conservative administration. The concept of "strategic" economic interests, which in Spain can range from weapons to sugar, has survived. And, judging by the enthusiasm of the country's *new leaders for placing their* chums in plum jobs, so has the tradition of political patronage.

The Popular party was waiting for its turn in power with almost indecent impatience, feeling cheated by its failure to beat the Socialists three years earlier and embittered by Mr González's refusal to quit amid gathering evidence of high-level corruption. This time its planning was thwarted again, by a close result in the March 3 contest, which left it 20 seats short of a *majority in congress, a bigger* gap than Mr González had to make up in his last term.

The 43-year-old Mr Aznar, a slight man of austere demeanour, has tried to project an image of relaxed confidence as prime minister, adopting a jolly laugh not heard before in public. But the new government got off to a stumbling start, evidently unnerved by *having been forced to strike* deals with Catalan, Basque and Canary Island regionalists *before taking office.*

Promises of quick, decisive reforms were set back by a nine-week interregnum, during which Mr Rodrigo Rato, the new team's economy supremo, was kept busy persuading the powerful Catalans to lend their support in congress. It took a further month for the government to *detail its first economic measures* – in effect a mini-budget in two parts, a Pta200bn ($1.55bn) adjustment in public spending plans for this year, *then a wide-ranging package* combining deregulation with tax measures to encourage small investors and businesses.

The new government shares *its predecessor's determination* to try to qualify for the European single currency and be counted in the EU's "first division". More than 80 per cent of voters backed parties that unreservedly favour monetary union. But, *because of its budget deficit and inflation levels,* Spain is still an outsider in the single currency stakes.

Mr Aznar's team was count*ing on a surge of confidence* and growth which would both create new jobs and drive up tax revenues. But its calculations have gone awry thanks to the downgrading of growth expectations in most of the EU. The most the government now expects from its stimulation measures is a modest recovery in the second half to achieve a 2.3 per cent growth rate for the *year, below last year's 3 per* cent. Although this would still put Spain among the EU's fas*ter-growing economies, there is* little hope in the short term of making a significant dent in the unemployment rate, which is by far the EU's highest.

At the same time, the budget position leaves little room for generalised tax cuts before at least 1998. The government has stopped talking in specific terms about reducing income tax – after promising in its *electoral programme to reduce* the top rate from 56 to 40 per cent – or cutting social secu*rity contributions.*

If growth fails to pick up in the next few months, the government may have to go back to pruning current-year budget expenditure in the autumn to keep the deficit on course. This would *coincide* with a tough budget bill for next year.

The 1997 budget is the big test Spain cannot fail in its application for the euro club, *and at the same time the first* big trial of its parliamentary alliance with the Catalan nationalists, enabling both sides to judge whether their agreement on economic policy and regional demands is working out.

The Aznar administration has so far been reluctant to take unpopular measures. The more radical free-marketeers in the *Popular* party have been effectively sidelined in the share-out of top jobs. Mr Rato, given full powers over economic strategy, is counting on *being able to achieve a wide* degree of consensus on pay and social policies. But the government's overtures to the trade unions have brought a *very guarded response.*

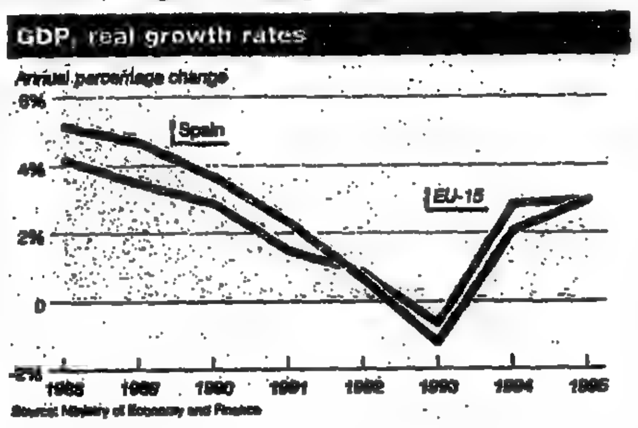
Mr Aznar had promised to start talks with labour leaders straight after the election, which would have been early March. By the time they sat down together it was mid-May, *and the unions were already* wary about plans for privatisation and spending cuts. If the government was hoping for a grand, three-way pact with *unions and employers, clearly* none was in the offing.

Questions such as redundancy compensation remain to be tackled, but it seems unlikely the government will be ready to face a crunch decision on the *issue before next* year.

In the meantime, warning voices are increasingly being heard in business against the *risk of seeing monetary union* in 1999 as the be-all-and-end-all of national ambitions. They say that if Spain joins the euro zone, without first tackling dif*ficult structural reforms* – such as in its hard-won welfare system – it will be seriously hobbled.

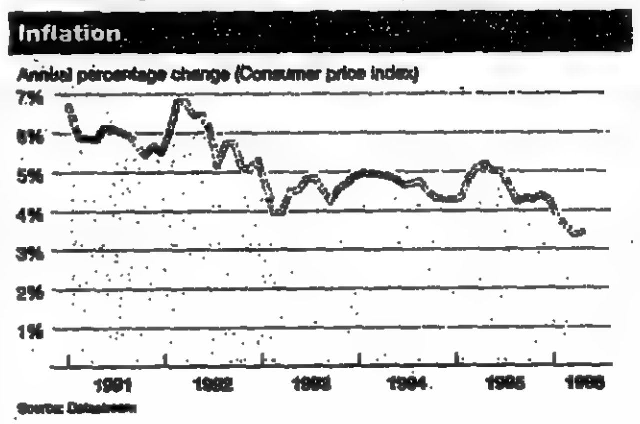

Prophet of the centre right: José María Aznar has emerged from the euphoria of his election victory to face tough policy questions Sergio Perez/Reuter

GDP, real growth rates



Source: Ministry of Economy and Finance

Inflation



Source: Datastream

IN THIS SURVEY

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■ **Privatisation:** by Tom Burns

Confused strategy

The government's approach to sell-offs is unclear and sometimes self-contradictory

The centre-right Popular party claims that it is the first government in Spain to have a coherent privatisation policy. The outgoing Socialists had sold off bits of public companies in a piecemeal fashion but in his investiture speech at the beginning of last month, Mr José María Aznar, the prime minister, specifically spoke about a strategy for disposals.

Since then, however, the government has delivered mixed signals. It has broadly adhered to the principle that the private sector is preferable to the public one, but there is confusion over what the disposals policy will eventually look like.

One idea that has recently surfaced is that there should be a clear distinction in any privatisation between the chief executives and senior managers of state-controlled companies and the actual owners of the state-owned equity that is to be sold off, in other words the government itself.

Popular party ministers appear to believe that during the Socialist period too much decision-making over privatisation was assumed by the chairmen of companies making the disposals and that the government must assert its control.

Quite how this will work in practice has left the markets guessing – it appears that it will still be the chief executives who will be making presentations during roadshows – but one consequence has been the replacement of such highly respected chairmen as Repsol's Mr Oscar Fanjul and Telefónica's Mr Cándido Velázquez by friends of the prime minister and members of his cabinet.

In the circumstances, one of the best ideas to have been put forward has been the creation of a privatisation office. This was mooted last month and was encouraged by market participants because state-owned industrial assets are in some cases controlled by the finance ministry and in others by the industry ministry.

However there is less enthusiasm for such an umbrella unit because it could be complicated and costly to set up. Officials say that even if there is to be no privatisation office there will be far closer co-ordination than in the past among all parties involved in the privatisation process.

A centralised unit for disposals would be highly useful because the government's priorities over what to sell first and when and how to sell it are very unclear.

Repsol is a case in point, for there is talk that part of the 10 per cent stake that the state owns in the oil, gas and chemicals conglomerate could be sold directly by Sepi, the industry ministry's agency which controls the Repsol equity, to

> Government's priorities over the order and timing of sales are unclear

its two core domestic shareholders, Banco Bilbao Vizcaya (BBV) and La Caixa, the Barcelona-based savings bank.

Sepi last tapped the markets with a Repsol disposal in February and a block sale of its equity in the conglomerate would circumvent the 12 month lock-out period that followed its global offering last February.

Endesa, the extremely profitable electricity generator and distributor which is 66 per cent state-owned, is a strong candidate for further privatisation. But there are arguments over whether Endesa should first consolidate its already dominant position in the domestic electricity sector through further acquisitions or whether, in contrast, it should unbundle some of its assets before approaching the markets.

As at Repsol, Endesa's core shareholders, in this case Banco Santander, Banco Central Hispano (BCH) and Argentaria, the state-controlled banking group, could be offered the opportunity by Sepi to raise their shareholding in the company.

The finance ministry's agency, Patrimonio del Estado, sold off 25 per cent of its equity in Argentaria in March. Since that disposal carried a six-month lock-out period, the remaining 25 per cent that Patrimonio owns in the banking group could be offered to the markets in the fourth quarter of the year.

However, the full privatisation of the fourth and final jewel in the state's corporate crown, the telecoms operator Telefónica, which is 20 per cent-owned by Patrimonio following the sale of 12 per cent of the government-held equity last October, is more complicated.

This is in part because of the glut of European telecoms paper, notably the huge IPO planned by Germany's national operator that will be offered to the market over the coming months, and in part because the government is in the midst of deregulating the domestic telecommunications sector and has promised legislation creating a new framework for the industry at the end of the year.

A privatisation office would help to create a strategy for public sector companies which are either not known to the markets because they have yet to start the privatisation process, or which are barely profitable. Co-ordination and in certain cases considerable corporate skills will be required to find industrial buyers for state-owned properties such as the aluminium producer Inespal and the national airlines Iberia.

The big loss-makers, principally the state-owned companies in the coal, shipbuilding and defence industries, present a different set of challenges. Officially the government, fearing problems with the unions, shies away from any suggestion that they should be wound up completely although this has been seriously argued by some senior officials and also by the Popular party's main parliamentary ally, the Catalan nationalist party.

There is nonetheless a certain amount of bullishness that new management, replacing the executives appointed by the socialist party, will go a long way towards stemming losses. These appointments have still to be announced and the consensus is that expectations of a recovery in these industries amount to wishful thinking.

■ **Telecommunications:** by Tom Burns

Caution leaves the market on hold

The Popular party is prepared to delay an ambitious timetable for liberalisation

The Popular party government has struck a note of caution and realism as it approaches the inevitably complex liberalisation of the domestic telecommunications sector. The European Union has allowed Spain a moratorium on the introduction of full deregulation and Mr Rafael Arias Salgado, development minister, is prepared to use up the extra time.

The policy is in contrast to the one adopted by the previous Socialist party government and the change suggests a better understanding of the constraints of the domestic economy. By exercising the moratorium option Mr Arias Salgado hopes that Spanish industrial groups will be better prepared to meet the challenge of the open market and to profit from the opportunities that will be ushered in by liberalisation.

The previous government demonstrated less pragmatism. Although it had originally negotiated a five-year transition phase for deregulation until 2003, it unilaterally decided to waive it with a surprise announcement two years ago that it intended to meet the EU's 1998 date for full liberalisation.

The decision, which was typical of the Socialist party's European zeal, had clear political overtones. By rejecting the slower route to liberalisation, the previous government was signalling that Spain was a core EU member, on a level with France and Germany, and was not to be grouped with the weaker and peripheral EU economies such as Greece and Portugal, which had also obtained a five-year delay for implementing deregulation.

Mr Felipe González, the former prime minister, called the fast-track deregulation package which he unveiled in 1994 "a leap forward of historic proportions". Mr Arias Salgado, who dislikes hyperbole, used more measured language earlier this month when he announced the revised schedule and package: "We will go neither faster nor further than the average among our European partners."

The new minister clearly does not feel bound by the previous government's public commitment to the 1998 deregulation date and he appears to be altogether more relaxed about EU deadlines. Mr Arias Salgado stressed that Spain's exemption until 2003 was still written into the EU's liberalisation directive for the telecommunications sector and he said that Spain would use the extension "prudently" and "reasonably".

In fact Spain is by no means an EU laggard over telecoms liberalisation. The national operator Telefónica, although fiercely controlled by the government (one of the first decisions of the new administration was to appoint Mr Juan Villalonga – a close friend of prime minister Mr José María Aznar – as chairman of Telefónica) is partially privatised. Specific business niches in the telecoms sector, including mobile telephones and data transmissions, have already been deregulated.

Under the new government's guidelines the timing for full liberalisation, which will include the deregulation of the twin jewels of the industry – basic voice telephony and the cable sector – appears to have altered. Mr Arias Salgado indicated that local cable operators, which will be providing basic telephony to users, are unlikely to be delivering services until after the 1998 deadline.

Otherwise Spain's telecoms package remains essentially the same. The present government, like the previous one, will as far as it is able assist the creation of Spanish telecommunications groups and will use Retevisión, the state-owned signal transmission company, as the chief vehicle to break the monopoly for basic voice telephony that is exercised by Telefónica.

The licences for cable operators will be awarded after 1998 and it is they who will be using the Retevisión network to provide the local basic telephony service.

The plan is that Retevisión will first create a telephony company and that the government will then sell 51 per cent of this company's capital, via a public tender, to a consortium formed primarily by domestic capital. Mr Arias Salgado expects that the duopoly will in principle exist as early as the beginning of next year, which is when Retevisión will be in a position to offer basic telephony services.

> The carve-up of the industry is designed to involve as much domestic capital as possible

Subsequently the government will reduce, probably through a public offering, state ownership in Retevisión to 20 per cent, which is the government's current ownership of Telefónica. Eventually it will fully privatise both Retevisión and Telefónica. The previous government had said that the state would have only a token presence in Telefónica by 1998 but Mr Arias Salgado does not want to be drawn over firm timetables for the planned disposals.

One novelty that will be introduced by the new guidelines is the creation of the Telecommunications Market Commission, a deregulatory body, to oversee competition. Under the previous arrangement the deregulation process would have been directly controlled by the administration.

Although the members of the commission will be directly appointed by the government, Mr Arias Salgado's development ministry is at pains to stress that they will be independent and will serve a four-year term. One of the commission's principle tasks will be to award licences to cable operators.

Another novelty is that Mr Arias Salgado has specifically excluded existing Telefónica institutional shareholders from investing in the second operator. This ban had not been spelt out before and it excludes Banco Bilbao Vizcaya, Argentaria and La Caixa, which between them control nearly 15 per cent of Telefónica.

The ban effectively means that Retevisión's main financial partners will be the rival banks, Banco Santander and Banco Central Hispano, which lead the consortium that owns Airtel, the second holder of a mobile telephony licence after Telefónica.

The carve-up of the telecommunications business is obviously designed to involve as much domestic capital as possible. By delaying liberalisation the new government is clearly determined that homeside companies should be active in the industry.

Ironically the bid to foster domestic business through intervention and protection could be prejudicial to Telefónica, which is Spain's biggest employer. This is because Telefónica has enthusiastically joined the Unisource alliance, formed by the national operators of Holland, Sweden and Switzerland, that aims to provide global telecoms services.

However Telefónica's 25-per-cent stake in the Unisource venture is to a great extent dependent on the 1998 deregulation timetable, because the European Commission could block the Spanish operator's participation if it is viewed as continuing to exert monopoly privileges at home.

KEY FACTS

Area	[illegible]			
Head of state	[illegible]			
Population	[illegible]			
Currency	[illegible]			
Average exchange rate	[illegible]			
GDP	1994	[illegible]	[illegible]	[illegible]
Total GDP ($bn)	[illegible]	[illegible]	[illegible]	[illegible]
GDP per head ($)	[illegible]	[illegible]	[illegible]	[illegible]
Real GDP	2.1	[illegible]	[illegible]	[illegible]
GDP components (% of GDP, 1995)				
Private consumption 62.1				
Total investment 21.5				
Govt. consumption 16.4				
Exports 23.7				
Imports (23.5)				
Indicators	1994	[illegible]	[illegible]	[illegible]
Consumer prices (annual % change)	[illegible]	[illegible]	[illegible]	[illegible]
Unemployment (% of labour force)	[illegible]	[illegible]	[illegible]	[illegible]
Money supply M3 (annual % change)	[illegible]	[illegible]	[illegible]	[illegible]
Gen. govt. deficit (as % of GDP)	[illegible]	[illegible]	[illegible]	[illegible]
Gen. govt. debt (as % of GDP)	[illegible]	[illegible]	[illegible]	[illegible]
Trade				
Current balance ($bn)	[illegible]	[illegible]	[illegible]	[illegible]
Current balance as % of GDP	[illegible]	[illegible]	[illegible]	[illegible]
Exports ($bn)	[illegible]	[illegible]	[illegible]	[illegible]
Imports ($bn)	[illegible]	[illegible]	[illegible]	[illegible]
Visible trade balance ($bn)	[illegible]	[illegible]	[illegible]	[illegible]

Main trading partners (% of total, 1994)

	Exports	Imports
France	20.1	17.5
Germany	14.2	14.6
Italy	9.2	8.9
UK	8.2	7.8
EU	[illegible]	[illegible]

Notes: [illegible] Source: Economist Intelligence Unit; IMF

■ **Finance and industry:** by Tom Burns

Two duellists take guard

Banco Santander and BBV are building rival shareholding networks

The traditional partnership between banks and industry in Spain, which for a time began to look obsolete, is more firmly cemented than ever. Recently a more intriguing pattern has set in: the big domestic financial houses have split into two camps as they position themselves to finance industry.

Banco Santander has provided the most interesting example of the new trend, partly because it has become the largest of the domestic banks and partly because it had for several years emphasised its preference for banking activities by selling off its industrial assets.

In April Santander surprised the markets by spending $400m to acquire 3 per cent of Endesa, the dominant and highly profitable electricity generator and distributor, which is 66 per cent state-owned. Analysts say Santander's renewed enthusiasm for industrial investment emerged late in 1993 when it signed a wide-ranging $600m alliance with British Telecommunications.

If Santander is in one camp then Banco Bilbao Vizcaya, its chief rival in domestic banking, is in another. BBV, which already had a well-established position in the electricity sector through its strong shareholding in Iberdrola, the second-ranked and fully privately-owned utility, increased its stake in Repsol, the energy conglomerate, a month after Santander's move on Endesa.

In contrast to Santander, BBV has always kept several irons in Spain's industrial fire. What BBV is doing now, however, is to increase its industrial presence. Its 7 per cent stake in Repsol, which it has built up from its original 5 per cent, is accompanied by an increasing presence in Telefónica, the national telecoms operator which is 20 per cent government-owned.

Neither of the two big banking groups lacks allies as they square up to each other with their rival industrial assets. Santander is joined by Banco Central Hispano in both Endesa and Airtel, the operator of the second mobile telephone licence after Telefónica. BBV is joined by La Caixa, a highly liquid institution that is one of Europe's biggest savings banks, in both Repsol and Telefónica.

Like BBV, La Caixa, which is based in Barcelona, has always had industrial assets on its balance sheet. It has traditionally been a significant institutional shareholder in the telecoms operator and owns 5 per cent of its stock, compared with BBV's 3 per cent.

La Caixa also has a strong connection with Repsol: the two are the dominant shareholders of Gas Natural, which was created by a merger between Catalana de Gas, controlled by La Caixa, and Gas Madrid, a Repsol subsidiary. But La Caixa's decision to join BBV as a leading shareholder in Repsol – it paid $330m for 3 per cent of the energy group in April and then acquired a further 2 per cent in May – suggested ambitions to finance industry on a national scale.

In the opposing camp, Santander was put on the trail that led to its Endesa stock acquisition by BCH, which in July last year unveiled an ambitious agreement with the electrical utility to swap assets and jointly pursue industrial investments. Unlike BCH, which controls about 1 per cent of Endesa, Santander has a strong balance sheet, which has allowed it to position itself far more strongly than BCH in Endesa's shareholding.

There is an obvious symmetry to the industrial strategies of the two camps. The big investments revolve around what the rival groups perceive to be the most profitable, as well as most capital-intensive,

Continued on facing page

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■ **The economy:** by David White

EU test sparks cuts

Monetary union targets have set an unrelenting pace for the new administration

Like an examination pupil fretting over the time left for swotting, the new Spanish government has realised it has only 18 months left to pass the test for joining the planned European single currency as a founder member.

Its preparation period has been shortened as the result of a general election it says would have been better held earlier, the loss of several weeks while it negotiated parliamentary support, and a slow start while the new administration settled in.

The economic strategy of Mr José María Aznar's government is marked out in advance by the requirements for joining the front-runners of European monetary union. Like the previous socialist administration, it believes the criteria for budgetary rigour and inflation control are a discipline the country badly needs anyway. But the effort will be difficult to justify to the public if Spain fails to make the grade at first try or does not join very soon afterwards.

Mr Rodrigo Rato, economy and finance minister, believes the single currency plan will take shape on time and much along the lines laid down. But most independent analysts believe that the target of reducing the public sector deficit to 3 per cent of gross domestic product in 1997 – a crucial criterion for deciding who qualifies to join the system from the beginning of 1999 – may be too tall an order for Spain, which had a deficit of almost twice that level (5.8 per cent) last year.

The outlook for budget revenues has become tighter this year with sharply reduced growth prospects, partly because of slower growth in EU export markets and partly as a result of low consumer confidence at home.

The revision in forecasts has coincided awkwardly with an unexpected reversal of the inflation trend, which after hitting a 25-year low of 3.4 per cent in the year-on-year rate in March, edged back up to 3.5 per cent last month, moving further away from the rates achieved by the best of the EU's performers.

The government now expects growth this year of 2.3 per cent, well down on the 3.4 per cent which had initially been forecast by the previous Socialist administration. Investment, especially in capital goods, is expected to remain the main motor, although at a lower rate of increase than last year. Private consumption is forecast to grow at around 2 per cent, little more than in 1995. Some economists suspect even this revised forecast is over-optimistic, although Spanish growth is expected to stay ahead of the EU average both this year and next.

> Growth forecasts for the year have dropped to 2.3 per cent from 3.4 per cent

Mr Rato accepts that the budget requirement represents "a big challenge" and that the government has "little margin" for action this year. To adjust spending to the target – which requires a 1996 budget deficit figure of no more than 4.4 per cent – it announced Pta200bn ($1.5bn) of cuts, principally in public works.

It followed these with a wide-ranging package of measures to stimulate and liberalise the economy, aimed both at reducing inflation pressures – for instance housing costs, by easing building restrictions – and boosting growth by harnessing private savings and providing tax incentives for companies.

The hope is that these will help usher in a recovery from the second half of the year, after a slippage in the year-on-year growth rate to 2 per cent in the first quarter compared with 2.6 per cent in the last quarter of 1995.

Innovations include a new capital gains tax, set at 20 per cent, well below the 56 per cent top marginal rate of income tax. Small and medium-sized companies will be given better tax conditions at a cost of some Pta20bn to the government over the next 18 months.

Mr Rato says the mixed-bag package was meant to send a clear message to business and revive confidence. "People had the impression that the economy was slackening, without seeing what the government could do about it," he says. The measures were well received by employers and investors, and helped the Madrid stock market push ahead into new territory after breaking through its previous all-time high in mid-April.

Interest rates have meanwhile fallen to their lowest level in recent years, with the independent central bank making a succession of cuts in its benchmark rate, which reached a new low of 7.25 per cent earlier this month. Analysts see scope for further cuts, in spite of the recent resurgence in headline inflation, which they believe will ease off again later in the year. The government is aiming for a year-on-year rate of no more than 3.5 per cent at the end of the year, compared with 4.3 per cent last year, and Mr Rato predicts inflation of 2.5-2.8 per cent in 1997.

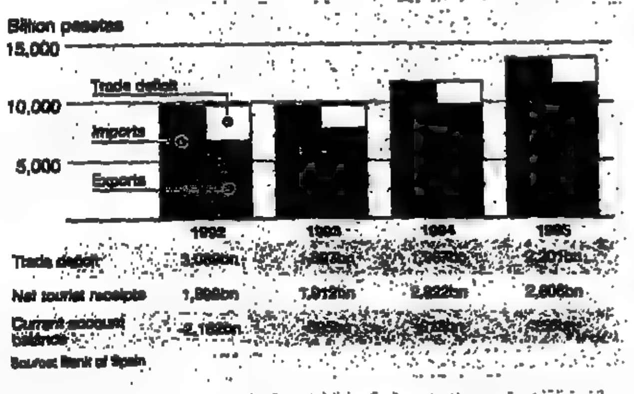
Lower interest rates promise to ease the budget problem, although further cuts in the current year's expenditure plans are not entirely ruled out. The initial Pta200bn measure, which followed a Pta850bn cut by the outgoing Socialist administration after its original 1996 budget bill was defeated in parliament, is widely regarded as falling short of the mark. However, no decision on further trimming is expected until the autumn, when the crucial 1997 budget has to be ready.

Mr José Barea, the head of a new budget office set up under the prime minister, caused a stir by announcing that a further Pta400-500bn of cuts would be needed to put the social security budget on track – an area in which the government accepts that prospects for meeting targets are "more doubtful" – and suggesting that government should close loss-making state companies, possibly freeze public sector wages next year and set lower pension payments, none of which are measures that the current ministerial team is prepared to contemplate.

The Institute of Economic Studies, which is close to the CEOE employers' organisation, recently pitched in by calling for a timetable of measures including the government's privatisation plans, the "orderly closure" of lame duck companies like the Hunosa coal mines, more deregulation in transport, telecommunications, professional services and energy, and a thorough reform of the tax system as soon as Spain reaches its 3 per cent public deficit target.

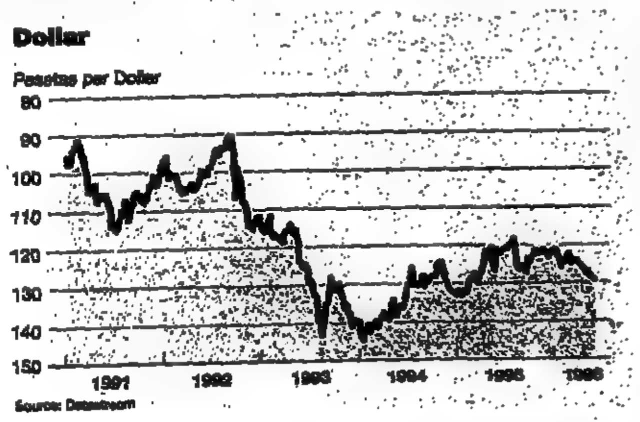
"The government does not exclude radical measures," Mr Rato insists. But it is not rushing ahead without first carefully considering the economic and political arguments. It is pinning its hopes on being able to create a consensus in favour of moderate wages and improve the workings of Spain's labour laws, notorious for the high cost to companies of making redundancies. This cost acts as a strong disincentive to new fixed employment, in a country where the jobless rate, according to the latest official three-month survey, stands at 22.7 per cent, more than twice the EU average.

Balance of payments



Source: Bank of Spain

Dollar



Source: Datastream

PROFILE Rodrigo Rato, economy and finance minister

Exponent of yoga and capitalism

In an elegant garden setting on the hillside next to Barcelona's Olympic stadium, Mr Rodrigo Rato, Spain's new economy and finance minister, was about to address a dinner gathering of top international executives. Picking up his notes from the lectern, he found that they were for the speech just delivered by the city's Socialist mayor, Mr Pasqual Maragall.

That happened quite often in parliament and often with rather good results, he said, stepping down to hand the notes back.

This easy-going performance, using good English in speaking to a foreign audience, is a marked contrast with the dry and rather cold image most Spaniards have of Mr Rato. In the run-up to the March general election, it was Mr Rato who did most of the work of presenting the Popular party's credentials to international investors and bankers, and persuading them that the party represented a credible alternative and a modern style of capitalism.

Once the election was won, by much less than the party had confidently expected, it was Mr Rato, as the leader of its parliamentary group, who handled the protracted negotiations with Catalan nationalists to win over their support for the formation of a PP government. His second daughter was born in Barcelona while the talks were going on.

Although officially only third in the hierarchy of the Aznar administration, the 47-year-old Mr Rato is not only the architect of its economic policies but also probably the most accomplished parliamentary debater on the conservative benches.

Mr Rato – his full name is Rodrigo de Rato Figaredo and a RRF monogram adorns his shirts – comes from a well-to-do Madrid family, with business activities that until a few years ago included a group of radio stations. His personal shareholding interests were the subject of one of the first nasty clashes with the Socialists earlier this month.

He is a relative latecomer to politics. After a law degree he spent three years in the US, taking a master's in business administration at the University of California in Berkeley, and returning to the family business. His father was a friend of Mr Manuel Fraga, then conservative leader and at the age of 30, Mr Rato joined the party's national executive committee.

Rato: accomplished debater

A member of congress first for Cádiz province and subsequently for Madrid, he was one of the first friends that Mr José María Aznar made when he entered parliament in 1982, after the elections which brought the Socialists to power. Seven years later, he was one of the group of people who conspired to ensure Mr Aznar was chosen for the party leadership, and not Ms Isabel Tocino, touted at the time as a potential Spanish Thatcher and now encamped in the environment ministry.

Mr Rato's unflappable public *persona* may have something to with the practice of yoga – although colleagues say he has less time for it these days.

David White

Strong funds absent

Continued from facing page

sectors in the years ahead:

■ Electrical utilities: Santander, with 3 per cent of Endesa, and BCH, with 1 per cent and an option for a further 2 per cent, are ranged against BBV, which has 11 per cent of Iberdrola, the electrical utility.

■ Oil: BBV, with 7 per cent of Repsol, and La Caixa, with 5 per cent, are squared off against BCH, which controls nearly 9 per cent of Cepsa, the second-ranked petroleum and gas group. Under its asset swap agreement with BCH, Endesa has a 5.6 per cent stake in Cepsa.

■ Telecommunications: BBV, with 3 per cent of Telefónica and plans to increase its stake, and La Caixa, with 5 per cent of the telecoms operator, are pitted against the investments that the rival camp will make. Santander and BCH jointly control more than 27 per cent of Airtel, the second mobile telephone operator, and Endesa owns a further 8 per cent of Airtel.

Argentaria, the third-ranked banking group, followed Santander into Endesa earlier this month when it paid $302m to raise its existing 1.2 per cent stake in the utility to 3 per cent. However the banking group, which is 25 per cent government-owned, has a foot in both camps because it is also a large shareholder of Telefónica, alongside BBV and La Caixa.

The increased industrial investment by the banks is in itself a comment on the absence in Spain of strong funds that are willing to provide capital. Domestic funds remain firmly in orbit around the government's fixed income instruments.

The decision taken by the top domestic banking names to build up their industrial portfolios is, however, a sound investment at a time of falling interest rates and the consequent squeeze on financial margins. In addition to being sure earners, companies such as Telefónica, Repsol and Endesa can provide valuable foreign exchange and corporate finance business opportunities to the banks that buy into their equity.

The emergence of the two camps suggests that industrial investment in Spain will increasingly take the form of partnership agreements and joint strategies among the members of each group. Cable television, for example, which is an incipient investment sector in Spain and one that will make strong demands on capital, brings together the expertise of financial advisers, electricity suppliers, telecoms operators and builders of pipelines.

It is no accident that the duopoly is all too evident in the television business: BBV owns 16 per cent of the pay TV channel Canal Plus and Santander, BCH and Endesa control 14 per cent of Antena 3, the main commercial television network.

Regions: by David White

A patchwork of identities

Responsibilities – ranging from finance to education – differ case by case

In less than 20 years Spain has moved from being one of Europe's most centralised countries to one of the most decentralised.

But the devolution process is still incomplete. Tinkering with the powers of regional governments and the means of allocating funds to them has become a disconcertingly permanent feature of the political scene. It remains uncertain how far the process is going, how quickly, or how evenly.

The regional question leapt to the fore after the March general elections. The delay in forming a government – a record nine weeks – was due to the protracted negotiations the victorious Popular party had to hold with Catalan, Basque and Canary Island parties to gain a parliamentary majority.

New funding arrangements, agreed in outline with the Catalans and now under discussion with leaders of other regions, are set to lead to a system in which rates of income tax may vary from one part of the country to another.

The 17 regions set up between 1979 and 1983, with their own elected parliaments and presidents, now account for a quarter of the country's public spending and public sector employment. At the same time, the "autonomous communities" have built up debts of almost Pta4,000bn ($31bn).

The impulse for devolution came from the resurgence of regional-nationalist movements in Catalonia and the Basque country, repressed during the Franco regime.

The Catalans had gained home rule during the pre-civil war republic, and the Basques in 1936 after the conflict had already started. Extending devolution to the rest of the country was an effort to dilute the impact of these strongly-rooted movements and mollify a restive military establishment, alarmed by any threat to national unity. A number of the new regions had never shown any interest in self-government, and in some cases were artificial creations.

The Basque country and Catalonia came first, along with Galicia in the north-west, which had been on its way to home rule when the civil war intervened, and Andalucia.

Among the other 13, Valencia, the Canaries and Navarre became assimilated with the first group as "fast track" regions, with the other 10 taking a "slow track".

What this means in practice is that the regions' responsibilities differ case by case. Two, Navarre and the Basque country, have special tax arrangements in recognition of ancient privileges. Instead of receiving funds from Madrid they collect taxes themselves and pay part to the central government.

The Basque country and Catalonia, but no others, have their own police. Six, including the Basque-speaking part of Navarre, use and teach their own languages beside Spanish.

Four regions, the first to win autonomy statutes, can call their own elections, but the others hold theirs on the same set date every four years. Seven regions now have powers over both health and education, the services with the biggest budgets and staffs.

This is not the standard structure of a federal state. It is not a case of different units that have come together, but a unified state that, by returning to medieval precedents or resorting to new inventions, has divided itself up – and, moreover, in a non-symmetrical way. "We are not federalist," says Mr Jordi Pujol, Catalonia's president, comparing Spain to Germany's Länder system, "because federalism is homogeneous."

Catalonia has been the pace-setter as an exponent of self-government – more so than the Basque country, something of a case apart because of its peculiar tax arrangements and the aggravating factor of Eta terrorism.

The pact made in April between the Popular party and Mr Pujol's Convergència i Unió coalition, which provided the means for Mr José Maria Aznar to be confirmed in parliament as prime minister, set out the main lines of a new regional financing deal.

The current standard system provides funds for regions partly through the allocation of 15 per cent of the income tax raised on their territory and partly through transfers from the central government, with a German-style compensation fund to offset differences in wealth.

The new system, to be phased in over two years while responsibility for schools and universities is devolved to all the regions, will not only double the share of income tax to 30 per cent but also give regional governments leeway to adjust the rates, tax brackets and deductions that apply to part of everybody's tax bill.

Mr Mariano Rajoy, public administration minister, says the increased tax share does not automatically translate into more money for the regions, since they will receive correspondingly less in the form of other transfers.

The regions, however, are divided about the plan. Some of the poorer ones never accepted the previous tax-allocation scheme, on the grounds that richer regions would be better off. The Catalans argued back that they did not do better at all because of financial ceilings imposed under the system, and in fact received less overall per head than other regions, even though they produced more tax revenue. But the idea of a 30 per cent slice without limits faces strong opposition especially from the Socialist-controlled southern regions of Andalucia and Extremadura.

Many argue it is high time to rationalise the whole system once and for all. The PP's electoral programme put the case for a more uniform structure, making allowance only for the special circumstances that had to do with islands, linguistic differences, or historical rights. But it had to change its tune when the narrow election result forced it to court support from the Catalan nationalists.

It is not just that regions like Catalonia and the Basque country want a greater degree of home rule, but that the dominant regionalist parties in those two regions see autonomy as a dynamic process, and do not want its limits defined.

The Rambla, Barcelona: Catalonia has been at the forefront of the move towards greater regional autonomy

PROFILE Jordi Pujol, president of Catalonia

Both canny and tenacious

In a contest for who ranks as Spain's canniest living politician, Mr Jordi Pujol, the Catalan president, would have only three rivals.

One, undoubtedly, would be Mr Felipe González, the 54-year-old former socialist prime minister whom Mr Pujol propped up in government for three years and then abandoned. Mr González staged a remarkable resurrection in the campaign for the March election, losing more narrowly than anyone expected. Then there is the tireless Mr Manuel Fraga, 73, a monument of brain-power and staying-power: a minister under Franco, he is now a convert to regionalism and president of his home region of Galicia. And there is Mr Xabier Arzalluz, the 63-year-old former Jesuit at the head of the Basque Nationalist party, exponent of a fine balancing act between the rhetoric of Basque nationhood and pure realpolitik. But of this select group it is Mr Pujol who today exerts the greatest power.

Just turned 66, he is the country's longest-lasting elected leader. Elected five times in a row as president of the Generalitat, Catalonia's autonomous government, he is expected to stand again next time if his chirpy fitness continues to hold up.

The 16 seats his party coalition holds in the Madrid parliament make it the arbiter of national politics, able to sustain or bring down the government. But at the same time, the Catalan coalition is an uneasy household of two distinct factions. Mr Pujol has difficulty justifying to some of his own Catalan nationalist supporters his decision to switch horses at national level from the Socialist party to the Popular party. Dislike of the PP and its previous hostile tactics, aimed especially against policies promoting the Catalan language, remains high.

Pujol: a formidable parliamentary wheeler-dealer

Having lost his outright majority in the Catalan parliament last year, Mr Pujol is able to work an exchange of favours with the PP, with each prepared to support the other's budget plans. But he has insisted on keeping a certain distance from the Madrid government, not accepting ministerial posts and watching closely to ensure the PP fulfils all its promises to the Catalans. "We like to keep a certain freedom of movement and opinion," he says.

A polyglot, competent in English, French, Italian and German as well as Catalan and Spanish, he has spent much effort projecting Catalonia's image abroad, ignoring the irritation this sometimes causes in Madrid.

Qualified as a doctor but never having practised, Mr Pujol spent two years in prison under Franco and went on to found his own party, Convergència Democràtica, towards the end of the dictatorship, with a solid middle-class base and a range of support from conservative to centre-left. He was the driving force behind Banca Catalana, a regional bank which collapsed in 1982, after he had sold his shares and left the board.

His victory in the first elections to the restored Generalitat in 1980 was something of a surprise, but he has since made the post his own. Mr Josep Tarradellas, the charismatic figure who had held the post in exile and returned to Barcelona in 1977, resented what he saw as Mr Pujol's "unbounded ambition". The criticism that Mr Pujol "believes himself in possession of all the truth when it comes to Catalonia" is shared by many of his enemies. To an extent that no-one else has done in any other Spanish region, he has identified Catalonia with his own diminutive, sprightly figure.

David White

Unions by Tom Burns

In search of social dialogue

Employers and unions are drawing up battle lines over plans to reform welfare spending

Spain's Popular party has spent several months monitoring industrial relations in France and Germany. Mr José Maria Aznar was keenly interested in how the French government stood up to union pressure and he is closely watching the German government's attempts to whittle down social expenditure.

There is a striking affinity between the Madrid government's agenda and those in Paris and Bonn. All three centre-right governments have singled out excessive public spending as the main barrier to meeting European monetary union criteria. They share broadly the same policies on welfare cuts, deregulation initiatives and privatisations – and they face the same problem of how to sell the package to the unions.

Mr Aznar has started to engage the unions with a considerable amount of caution. He has promised to maintain the purchasing power of pensions, called for what he calls a "social dialogue" on all aspects of labour relations and encouraged meetings between employers and the main unions with the aim of increasing employment.

The government's low profile may be sensible in the short term but there is a widely held perception that the present calm on the industrial front will not continue much beyond the autumn. There will be much in the new government's first budget, which will be unveiled at the beginning of October, that the unions will not like.

"We are shadow boxing at present," said a senior member of Comisiones Obreras (CCOO), the communist-leaning trade union which together with the mainstream socialist Unión General de Trabajadores (UGT) dominates organised labour in Spain. "It will be some time before we really start talking."

It is already clear that neither the unions nor the CEOE, the employers association, believe that there is much to be gained by talking to each other as Mr Aznar would like. Both sides know that the government will have to involve itself in everything that touches on employment guidelines and welfare benefits.

It is because of this that the CEOE and the unions are more concerned about delivering confrontational messages to the public in general and the government in particular. The employers are calling for a

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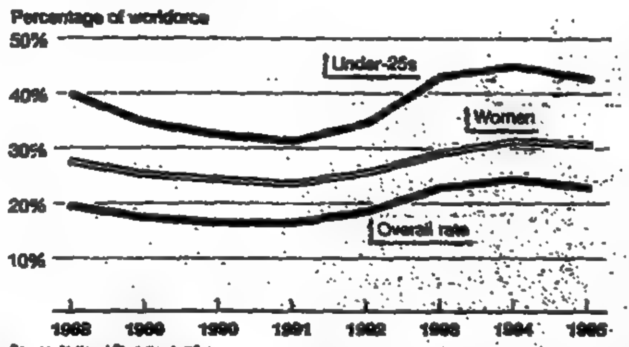
Unemployment rate



Source: National Statistics Institute

PROFILE **Abel Matutes, foreign minister**

Unafraid of making head-on tackles

You would not say, at first sight, that Mr Abel *Matutes* was obviously a former athlete. But the new Spanish foreign minister's packed curriculum vitae includes a spell as a football player. While he was a student he turned out for *Español, Barcelona's* "other" *first-division club*, known *these days by the more politically-acceptable* Catalan spelling of Espanyol. Mr Matutes jokes that his time on the soccer field was the closest he ever got to the left wing.

A *stalwart of Spanish* conservatism through the *various* phases that led up to today's Popular party. Mr Matutes built up his own party base in Ibiza, where his family are the *island's wealthiest* businesspeople. At the beginning of the 1970s, during the Franco regime, he was briefly mayor of Ibiza, an episode that ended in a row with the air ministry over a Matutes hotel built next to the airport runway.

A *senator from the first post-Franco elections* in 1977 and subsequently a member of congress at the head of the list *of* candidates for the Balearic Islands, *he had backing in* business *circles for taking* over the conservative leadership. Instead he was dispatched by the socialist government in 1986 to be one of Spain's two commissioners in Brussels.

At the European Commission he held a *series of jobs* – credit and investment, small- and medium-sized companies, Latin America and north-south relations, transport and energy – before the *Popular* party hauled *him* back to head its European Parliament campaign in 1994, which produced the party's first national-level election victory.

His credentials *for becoming foreign minister were obvious*, though as a *former* professor of public finance, with degrees in law and economics and a business background in tourism and banking, he could also have taken an economic post.

Most EU diplomats are content to find his familiar face in the Santa Cruz palace, home of the *Spanish foreign* ministry. *One diplomat described him as* "a pragmatic, deal-making politician rather than a visionary politician". The diplomat ascribes some of Mr Matutes' more outspoken recent comments to the bravado required of an incoming *conservative minister, expecting it* will be a passing phase.

Matutes: a pragmatic deal-maker rather than a political visionary

One place where Mr Matutes has gained instant notoriety is Gibraltar, when he stated that his "hand would not falter" in closing down Spain's border with the British colony if the *smuggling* issue is not resolved. The last Spanish government *to close* the border was Franco's. It stayed shut for 18 years until it was reopened in 1985 in the hope of improving relations.

Mr Matutes was also tough on US policy towards Cuba, once part of Spain's colonial empire, describing the reinforcement of sanctions under the Helms-Burton law as "unacceptable in every *aspect*". *This objection* was watered down soon after by Mr José María Aznar, the prime minister, in a meeting with Mr Al Gore, the US vice-president. But Mr Matutes *came back warning that Spain* would retaliate against any US measures damaging its interests, earning a sarcastic photo-caption from the ultra-conservative newspaper ABC: "US government trembles in the face of Matutes' threats."

David White

Two-tier job market

Continued from facing page

meaningful reduction in firing costs and CCOO and UGT have signalled that they will defend welfare spending.

Even before the union-employer talks have started properly, each side is accusing the other of seeking to wreck the discussions in order to force the government to step in. Seasoned observers of Spain's industrial relations say that although both sides might agree *that* entire *chapters* of the existing labour legislation need thorough reform they will be incapable of finding common ground over what changes should be introduced.

There is consensus, for example, over the fact that an unsatisfactory, dual labour market *has* emerged. Some 35 *per cent of the labour force* is *employed* on the basis of short-term, and in practice non-renewable, contracts while other employees have highly protected job security.

There is no agreement, however, on how to alter this duality: the employers want to extend *flexible* employment *practices which incur minimal* dismissal costs, but unions want to stop the trend.

The result of such apparently irreconcilable positions is that the government, in addition to being drawn into the talks sooner than it might wish, could find *itself* with *little room for manoeuvre*.

The issue of firing costs for fixed-contract employees, which the employers have raised, is highly emotive and was the most controversial aspect of a reform introduced by the previous, socialist government in 1994. The unions called *the reform* draconian and the employers, who at the time said the reform was too timid, now say that it is a dead letter.

As far as the CEOE is concerned, the litmus test of the 1994 legislation is the distinction it makes between unfair dismissals and what it calls "objective" compulsory *redundancies* that are *made* necessary because of technological innovation or relocation. Employers frequently say they are deterred from hiring because of the firing costs but their overriding concern, which is *not* publicly aired, *is that dismissal costs prevent them from raising* productivity by dismissing ageing, inefficient employees who command high wages.

The 1994 legislation maintains high dismissal costs for employees who are arbitrarily sacked. Employees who are unfairly *dismissed* are entitled *to a severance* package amounting to 45 days' pay for every year worked, up to maximum equal to 40 months' wages. In contrast the severance package for an "objective" termination of a work *contract is fixed at 20 days' pay* per year worked, up to a maximum of 12 months.

The catch, according to employers, is that the decision about what is unfair and what is "objective" is made by judges at a *labour* court when *an employee appeals*.

A recent *study* of dismissal sentences at 38 labour courts found that in 85 per cent of the severances that were considered "objective" by the employer the judges ruled that the redundancies constituted *unfair dismissals. "The reform of the* labour legislation simply does not work in this key aspect," says Mr Joan Rossell, president of the Catalan employers federation which sponsored the report.

Just as the employers have drawn their *battle* lines over firing, the unions have drawn *theirs* over welfare benefits. They point out that in Spain there is no question of trying to cut back on the sort of paid holidays in health spas that German workers might receive because Spanish workers have never enjoyed such luxuries.

One complaint of the domestic unions is that although welfare spending has risen steeply over the past decade it is still well below comparable European standards.

There will undoubtedly be as much *trouble* from *the unions if Mr Aznar lowers* social spending in his forthcoming budget as there has been elsewhere in Europe. "Any cuts, and we fear that there will be cuts, means a major row, a general strike," says Mr Angel Campos, from CCOO.

Such threats are not idle. CCOO and UGT organised a 24-hour national stoppage in 1988 which derailed an attempt by the Socialist government to rationalise welfare expenditure.

But as the monetary union convergence deadline looms, *Mr Aznar's government* is under far greater pressure to act. Should push come to shove, Mr Aznar hopes that there will be valuable lessons to be learnt from France and Germany.

PROFILE **Esperanza Aguirre, education and culture minister**

The workaholic icon

Incoming prime ministers in Spain tend to reserve the *ministries of education and of culture* for the high-flyers in their team because domestic public opinion considers the two posts to be emblematic of a new government.

Mr Felipe González put Mr José María Maravall, one of the most thoughtful members of the Socialist party, in charge of education and he gave the culture job to Mr Javier Solana, a gifted political climber who was later to replace Mr Maravall before becoming foreign minister and, as of last year, secretary general of Nato.

Mr José María Aznar has merged the education and the culture ministries and put Ms Esperanza Aguirre in charge of them.

Regarded as a highly ambitious workaholic, Ms Aguirre has become something of an icon in the centre-right government. She is a cabinet member to watch.

Ms Aguirre, 44, plays down her membership of the landowning upper class and stresses the fact that she passed competitive exams to join the upper echelons of the civil service. She was previously best known to the public as an opinionated and often impulsive member of Madrid's city council where she rose to the rank of deputy mayor.

One report had her first opening an exhibition devoted to Latin America and then ordering its closure a few days later in a fit of fury: she had learnt that it included workshops which lauded the Cuban revolution and castigated multinationals *for clearing swathes of the* Amazon rain forest.

Environmentalists were never quite sure of what to make of her. She backed an incinerator that nobody in its vicinity wanted and also a tree-felling exercise in the woodlands of the Casa de Campo park. But she fought off developers who wanted to run a highway through a 18th century garden that was known only to specialists and she stopped the excessive tree-pruning practices that were championed by Madrid's corps of city gardeners.

Mr Aznar clearly liked her style. He co-opted her onto the Popular party's national executive earlier this year and ensured that she ran for a Madrid senate seat in the elections. The voters liked her, too: her poll figures were higher than those of anyone else in Spain.

Ms Aguirre, who describes herself as a liberal, is a conviction politician and is arguably the only true free-marketeer in the cabinet. She says that Lady Thatcher is her political role model and always keeps a copy of her heroine's *The Downing Street Years* within reach.

No sooner had she taken over at the education and culture ministries than she was characteristically making headlines. She spoke up for private schools, which in Spain means Catholic church-run schools, and she said she did not believe in funding the arts with public money.

Her remarks on schooling were couched in the language of "choice" – parents should be allowed to choose where and how they wanted their children educated – and flew in the face of all that the previous Socialist government had preached during the 1980s.

Aguirre: Thatcher a role model

The socialists, who raised the school-leaving age to 16, were financially generous but highly *dirigiste* and interventionist over education. They significantly raised the education ministry's budget, routed the new revenues principally to the state schooling system and increased the education ministry's control over grant-aided, church-run schools.

In contrast, Ms Aguirre has accepted cuts in what had been held to be the education ministry's sacrosanct budget. Mr Aznar's government is determined to cut the budget deficit and Ms Aguirre has shown herself willing (too willing, say her critics) to rein in spending by her department.

She has also indicated that she is ready to increase grants to the private sector schools. If there are waiting lists for church-run schools because more parents want their children to be educated at them and if there is less demand for places in the state schooling system, then it is obvious that the first set of establishments, rather than the second, should have first call on the funds available, she says.

These policy preferences could, sooner rather than later, put Ms Aguirre on a collision course with the state schooling system's teachers.

In the culture ministry, Ms Aguirre's liberal and free market ideas – subsidised art is usually bad art – are no less controversial, for cultural subsidies had become something of a growth industry under the socialists. Her main challenge will be gradually to shift spending on the arts from the public to the private sector by means of a far more generous fiscal policy of private foundations.

Those who know Ms Aguirre well say that her gut instinct is that the best cultural policy a government can adopt is not to have one at all.

Tom Burns

■ **New flamenco:** by Kathy Karmen

Out of tune with tradition

Bongo drums and bare-chested stars have attracted a new audience to flamenco music

The polka dots and flounces are gone. Forget about the castanets. And the lone guitar now has company on stage. Take "Gypsy Passion", the latest show by rising star Joaquín Cortés. Women in plain black dance to the wail of flutes, violins and the beat of bongos. The stylised contortions of bare-chested Cortés even get the grannies in the audience leaping to their feet.

Flamenco purists grumble but the sounds and look have opened up a new era in the music. In recent years young flamenco musicians have been bridging the gap between traditional flamenco and other music forms – salsa, blues, jazz and pop/rock. An assortment of instruments, ranging from the Peruvian *cajón* or box-drum to violins, flutes, blues guitars and even the piano, has invaded the scene. Cortés admits to having danced a "seguiriya" – a basic flamenco song – to a grand piano. In the recording "10 de Paco" a piano, saxophone, flute, double bass and percussion reinterpret 10 compositions by master guitarist Paco de Lucía. It is "flamenco fusion" at its best – though few would have thought a piano could sit in for the flamenco guitar.

"Experiments aside, flamenco will always be based on the guitar," says flamenco critic Joaquín Albaicín. The guitar, he says, has evolved more than anything else because of Paco de Lucía's innovations. De Lucía, an extraordinarily gifted and precocious guitarist, himself outgrew traditional forms and techniques of playing.

This is a result of his mastering flamenco's strict canons at too young an age, sigh the purists with some misgivings: one gets bored and starts messing with bossa nova and such. By the early 1970s de Lucía, who is now 48, was incorporating bongos and a bass guitar to enhance rhythm.

Persuasive Latin American rhythms are not entirely new to flamenco. The connection with Spain's new world colonies left its mark a century ago with a form of flamenco called *de ida y vuelta* or "there and back here" song. Afro-Cuban rhythms such as the rhumba gave a new twist to flamenco's lighter forms. Compared with a solemn bit of chair-binding *cante hondo* (deep song), a burst of gypsy rhumba comes on like an attack of ants in the pants. The French group Gypsy Kings has taken the rhumba to its ultimate commercial success with music made to get the dead going. The group's Andalucian cousins claim more subtle variations.

Cante or flamenco song was revolutionised by the phrasing and personality of the Cádiz-born singer Camarón de la Isla (Little Shrimp of the Isle). Camarón, a blond, flamenco version of James Dean, moved a whole generation with his fantastic *rajo* voice – a hoarse quality caused as much by his gypsy origins as by cigarettes. An idol at home and admired abroad by the likes of Mick Jagger and Leonard Cohen, Camarón died in 1991, aged 41, of lung cancer.

In the wake of such heavyweights, young flamenco talents do not always have an easy time finding a voice of their own. Sound-alikes abound, but imitators are ruining the essence of flamenco, fret the critics. Few have the ability of Camarón or de Lucía to revert to traditional forms at will.

For some, having it in the blood is as good as having it in the fingertips. The offspring of various flamenco dynasties have simply opted to do their own thing. Groups such as Ketama or Pata Negra have broken new ground by mixing their flamenco base with salsa, blues and rock.

Spanish jazz musicians have also joined in, realising that flamenco is not only a source of untapped riches but also Spain's most exportable cultural product. The result of all this is uneven. Rock music, for example, is a rhythmically more limited and less melodic partner. As flamenco evolves, the debate is about where to draw the line.

In the flesh: Joaquín Cortés has melded ballet and flamenco traditions

Some flamenco artists remain hostile to what they see as pure commercialism. There is also unease over excess technical perfection detracting from essence. Virtuoso *zapateado*, or noisy footwork of the clockwork kind, can drown out the subtlety of dance movement. Older artists are also cautious about the borrowing. One veteran dancer compares flamenco with clay: "You can make a thousand marvellous figures with it, without having to use other materials."

But the buzzword among young artists is *mestizaje* – the word for racial mixing, used here to mean the blending of different cultural currents. Cortés, 27, a former ballet star who went back to his gypsy origins to take up flamenco, is one of several such cultural hybrids. The result is a ballet flamenco where the two dance forms fuse or taunt one another like two street fighters, or blend together to a jazz trumpet. With his fluid movements, Cortés takes some of the strutting out of flamenco. The critics and the public may at times be sceptical, but Cortés has undoubtedly freshened up the rigid as well as macho world of flamenco.

He and a bevy of other flamenco stars appear in *Flamenco*, the new film by Spanish director Carlos Saura in which the classic and the new have their say in a feast of song, dance and guitar.

Paradoxically, the mixing of cultural currents goes along with a strong emphasis on ethnic origins. On stage, Andalucian gypsy performers fête their history and cultural specificity. Though non-gypsy artists such as Paco de Lucía have always thrived, flamenco owes its survival to the gypsies and their oral tradition. The closed world of flamenco has opened up, especially in Andalucía where gypsies have moved to the cities and become more integrated, and it has gained a new following.

The debate about new flamenco is bound to continue. Will a packed stadium hurt the essence of flamenco? As society evolves, will an art form preserved until now by a marginalised people lose its roots? Does flamenco risk being absorbed into "world music"?

One happy outcome of all the experimentation is that many young adepts who are drawn to the new sounds turn to traditional flamenco for more. And there is enough young talent around to satisfy the demand for the genuine.

■ **Water:** by David White

Danger hides in the depths

Delicate political issues surround the distribution of the newly-replenished resource

Out to the west of Salamanca, in wild, impassable, forgotten country, Spain's biggest hydro-electric power station sits in a deep ravine of the Duero river, with a 140-metre-high dam reaching across to Portugal on the other side. A bit further downriver the Duero, or Douro to the Portuguese, stops struggling and turns to take the shortest route to the Atlantic at Oporto.

On this frontier stretch, the private-sector Iberdrola company generates a quarter of Spain's hydro power. The dams built on the river and its tributaries also serve to irrigate farmland along the basin, whole areas of which would otherwise have been abandoned.

These days the Duero reservoirs are 90 per cent full. But last November, they were down to 36 per cent of capacity. In the river basins of southern Spain average levels were at 10 per cent or less.

Good rainfall is important in Spain. It pushes down food and electricity prices; brings recovery to the farm sector (expected to contribute about half a point to the official forecast of 2.3 per cent economic growth this year); and improves people's mood and outlook in much of the country.

The rains of the past few months put an end to five years of drought. People in Seville, subjected to cuts of 10 hours a day last November, have been able to take showers again at night. About one in four Spaniards was affected by restrictions. Now, water that was desperately needed last year is being allowed to spill down into the sea. At the main Madrid reservoir, the debate has been about whether the level is too high.

The dry cycle, the longest for a century and all the worse for increased demand, prompted a series of emergency investment projects, makeshift schemes to transport supplies in ships, tension with neighbouring Portugal and a tug-of-war between different regions within Spain.

Against protests from local farmers, extra supplies were pumped down to the arid south-east through the network of canals and tunnels that links the region with the giant reservoirs at the headwaters of the Tagus, east of Madrid – but too late to save many new fruit plantations. Overall, some 6m hectares of farmland were reckoned to have been seriously damaged. Crops such as rice, cotton and olives were badly hit.

"The problem in Spain is not the quantity of water, but having water where it is needed," says Mr Benigno Blanco, appointed to the new job of state secretary for water and coasts at the newly-independent environment ministry.

An overall National Hydrological Plan for harnessing water resources, ill-distributed between the wet north and the dry south, was foreseen under a 1985 Water Law. The last Socialist government produced a first draft three years ago. Investments were envisaged totalling Pta3,800bn over 20 years, on projects ranging from new reservoirs to flood defences, and including Pta750bn in new connections to transfer water from one river basin to another, but the plan never went through parliament. Mr Blanco is now reworking it.

The centre-right government is committed to bringing in a national plan as a priority task but makes clear that it intends to undertake a thorough revision. The target date for having a new plan in force is mid-1998.

The Socialists' scheme was held up on procedural grounds, since it appeared to override the country's river basin confederations, in which responsibility for water management is vested. The nine main confederations – bodies originally set up in a pioneering initiative in the 1920s – come under the control of Mr Blanco's department.

He says the argument over whose plans come first has become obsolete, since the confederations' proposals are now mostly complete, awaiting cabinet approval. The aim is to combine these with two pieces of legislation – a new hydrological plan and a national irrigation plan, covering the sector that is overwhelmingly the main user.

> Any plans to divert river water from the Duero or the Tagus could anger Portugal, where both rivers end

Some 80 per cent of water used in Spain goes into irrigated farming, with households consuming 12 per cent and industry the remainder.

Mr Blanco says the aim is "to put our feet on the ground for the short and medium-term," placing less emphasis on ambitious new works projects and more on managing existing resources, including subterranean reserves. Construction schemes are to be scrutinised for economic viability, efforts made to enlist private-sector investment to alleviate the impact on the government budget, and priorities selected.

With a permanent shortfall of water resources in southern Spain, transfers from other regions are "absolutely unavoidable," Mr Blanco says. But he sees these schemes as "the last solution," problematical because of both their environmental impact and cost.

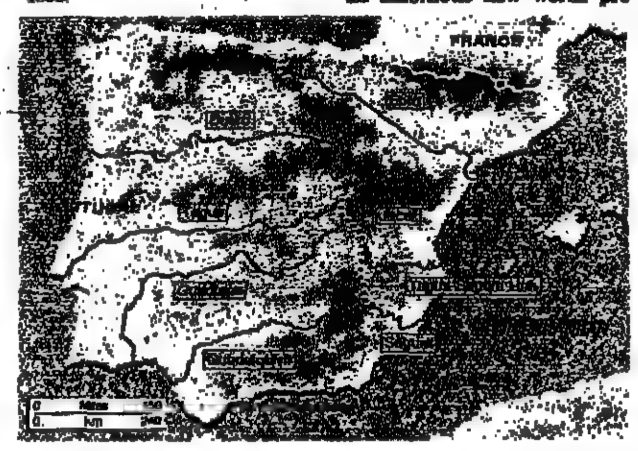
"We can't have a system of transfers connecting all the river basins. We have to be fairly selective," he says. "It is not always economically viable, for the use it is put to, to take water to all regions."

Irrigation associations, which have a solid tradition in areas like Valencia and Murcia, could play a stronger role in avoiding unreasonable increases in demand, he says. The government wants to promote similar initiatives among owners of wells, many of which are unauthorised.

Water is not only an emotional subject within Spain but also a highly delicate issue in Spain's historically sensitive relations with Portugal. Plans for a new agreement, updating two 1960s pacts between Franco and Salazar, the dictators who then controlled Spain and Portugal, were discussed last month between Mr José María Aznar, the prime minister, and Portuguese President Jorge Sampaio, the first foreign leader to visit the new Spanish administration.

Any plans for diverting river water from the Duero or the Tagus touch a sensitive nerve in Portugal, where both rivers end up. But the biggest problem lies further south with the Guadiana, a particularly irregular river, running from Spain along the border, into Portugal and then back to form the southernmost stretch of the frontier.

Portugal's revival of an old plan to build a big dam at Alqueva, with the aim of boosting a depressed farming region, raises questions on the Spanish side about the scale of the project and its effect on the environment.



■ **Banking and finance:** by John McManus

Profits and pressures

Although part of the Irish success story, banks and the IFSC face uncertain times

It has been a good year so far for the Irish banks with the two largest, Allied Irish Bank and Bank of Ireland, reporting record profits. However, both tempered the good news with warnings about the pressures facing them in the increasingly competitive domestic retail market.

Bank of Ireland reported pre-tax profits of I£376m in 1995 and Allied Irish Bank I£372m. Both institutions derived more than half their profits from domestic retail banking despite having expanded internationally since the 1980s. But, according to a banking study by the Dublin stockbroker, NCB, margins in the home market will be increasingly squeezed over the next few years. The main reason is greater rivalry between banks and building societies in the mortgage and deposit markets.

NCB, however, is still predicting that bank and building society operating profits will grow by up to 8 per cent over the next two years. Any reduction in margins should be compensated for by increased volume, particularly in mortgages, as the Irish economy continues to perform well. The fact that banks and building societies are addressing the issue of their cost bases – traditionally higher than those of their British counterparts – should also help.

The profitability of their domestic operations has allowed AIB and Bank of Ireland to fund ambitious overseas expansion plans. But results have been mixed.

This year saw the implementation of a significant shift in Bank of Ireland's international strategy. The bank has now merged its US arm, a big loss maker in the early 1990s, with the American operations of Royal Bank of Scotland and is targeting the British market for expansion. Earlier this year it announced an agreement to acquire the Bristol and West building society for I£600m.

Bank of Ireland's slightly larger rival, Allied Irish Bank, remains committed to the US, where it has fared somewhat better. It plans to grow both organically and by acquisitions and has the goal of developing its current $11bn US operation, First Maryland Bancorp, into one with assets of $20bn by the end of the decade.

In the domestic market, the two banks compete with their smaller foreign-owned rivals, which include National Westminster's Irish subsidiary, Ulster Bank, and National Irish Bank, which is owned by National Australia Bank. However, the keenest competition in recent years has been provided by the building societies and former building societies. The country's largest mortgage lender, the Irish Permanent, converted to plc status and joined the stock market in October 1994. Along with the big building societies, Irish Nationwide, First National and the EBS, the Irish Permanent is now offering full banking services. The First National Building Society is expected to announce its plans to demutualise and seek a stock exchange listing later this year.

Despite increasing rivalry,

> Competition from credit unions will soon increase

the banks would appear to be holding their own in the mortgage and deposit markets. They have 41 per cent of the homeloan market, compared with 38 per cent in 1990, according to NCB.

The building societies, meanwhile, have lost ground in the deposit sector, controlling 20 per cent of the market overall, but seeing their share of new deposits fall to 10 per cent.

Strong competitive forces in the market for smaller deposits have been the Irish post office, An Post, and Ireland's credit union movement. Along with the National Treasury Management Agency, which manages Ireland's I£30bn national debt, An Post offers a range of very attractive tax-free schemes for small savers.

The participation of the small Democratic Left party in the coalition government has been a boon for the small but growing credit union movement. The party has pushed hard for the Credit Union Bill, which is due to be enacted later this year. The credit unions, which have assets of I£2bn and more than 1.8m members, will be able to offer a much wider range of services, including current accounts, and will come under the supervision of the Central Bank.

The Democratic Left's part in the ruling coalition has not been such good news for the Irish Trustees Savings Bank.

The TSB has been courted for the past three years by both Ulster Bank and National Australia bank, which wants it to merge with National Irish Bank. The trustees of the bank have shown a clear preference for National Australia Bank, which bid I£126m in mid-1994 to top Ulster Bank's I£120m. However, the Labour party, the other partner in the three-way coalition with Fine Gael, is constrained by an election manifesto promise to create a "third banking force" through the merger of the TSB with the two state-owned banks, ICC and ACC. The managements of all three banks are opposed to the plan.

Although Labour could quietly let its third-banking-force proposal fall by the wayside, progress on the sale has effectively ground to a halt because the Democratic Left is keen to link it to reform of the clearing system operated by the four large banks. It wants to make the system less expensive for the smaller financial institutions, such as credit unions.

By contrast, the government is in agreement about the International Financial Services Centre (IFSC) in Dublin, whose role as the largest centre for offshore fund management in Britain and Ireland it is keen to promote. With $21bn under management, the IFSC outstrips both Guernsey ($15.5bn), and Jersey ($18bn). However, Dublin still has some way to go before it can rival Luxembourg ($350bn).

The viability of the IFSC is directly linked to taxation policy. The government has extended Business Expansion Scheme legislation to include companies set up to acquire representation on FINEX, the Dublin arm of the New York Cotton Exchange futures market. Individuals investing in these companies are now eligible for income tax relief. The main incentive, however, is the 10 per cent corporation tax rate, which applies to IFSC companies until 2005.

More than 30 companies have set up in Dublin since the start of the year and more than 612 funds are now registered. However, questions are already being asked about what will happen when the 2005 deadline runs out. Officially, the government argues that the other draws of operating in Dublin, especially the abundance of suitably qualified and relatively inexpensive staff, will keep the funds there. Privately, officials say Ireland may seek an extension of the 2005 deadline by the European Union. However, the case would be very hard to argue – the EU has already agreed to one extension.

■ **Economy:** by John Murray Brown

Europe's new 'miracle' recovery

Only two areas of concern remain as the country records Asian-tiger style growth rates

Ireland's recent economic performance has proven even the most sceptical of forecasters wrong. After what all are agreed has been a record year, estimates for the increase in gross national product in 1995 range from 7.75 per cent from the semi-official Economic and Social Research Institute (ESRI) to a confident 10 per cent from brokers such as Ulster Bank Capital Markets and Goodbody's.

Whatever the exact performance – and those familiar with Irish national accounts at the Central Statistics Office in Cork are going through something of a soul searching period at present – it is increasingly evident that Ireland is experiencing an economic renaissance.

Mr David McWilliams of the London office of UBS, the Swiss bank, points out that Ireland is achieving south-east Asian growth with German style interest rates and inflation.

Two years ago, the sceptics would have pointed out that the growth of the economy was not producing jobs, with unemployment continuing to rise sharply between 1991 and 1993, despite average GNP growth of over 4 per cent.

However, today government officials can cite recent labour survey data that show that Ireland is experiencing real jobs growth, against the trend in the rest of Europe, with the annual increase in the total number at work totalling 43,000 in 1995.

The ESRI forecasts that the unemployment rate will fall from 12.6 per cent in 1995 to 11.7 per cent in 1996.

The long-term unemployed, those out of work for more than a year, still account for 30 per cent of the total, but officials point out that the figures are exacerbated by an increase in the number of women in employment – which is now approaching the European average – and a slowdown in net emigration as the Irish living abroad return home to take advantage of the economic recovery.

Ireland, an economy that is a 20th the size of the UK and a 30th the size of Germany is now the fastest growing of any country within the European Union.

It is consistently outperforming the other so-called "converging" economies of Spain, Portugal and Greece, giving the lie to those in Brussels who worried that the peripheral economies of the union would experience difficulty catching up.

Mr Ruairi Quinn, the Irish finance minister, has taken to pointing out that on a per capita income basis Ireland is predicted to overtake the UK by the year 2010, and to achieve the European Union average – before enlargement, which will bring down the average income levels – by 2005.

The strength of the economy has put Ireland in a good position to face the challenges of monetary union, and the enlargement of the Union, with all that will mean for farm incomes as the 15 member states consider applications from the big farm economies of eastern and central Europe. And this is happening as Dublin prepares to assume the EU presidency.

The Irish recovery is clearly of particular satisfaction to Ireland's defenders in the Commission as the country has taken substantial amounts in regional grants and other funds since joining in 1973. The latest five-year plan – 1994-1999 – envisages a total of I£9bn making Ireland the highest recipient of any EU country. As one senior Commission official puts it: "Ireland is the success story on cohesion, the miracle economy".

Inward investment in 1995 reached record levels, with Ireland now the favourite location for US software companies, accounting for 40 per cent of all US software investment in the EU. The government's policy of targeting the high growth areas of computers, pharmaceuticals and financial services is paying dividends not just in terms of tax receipts for the exchequer but also in terms of jobs for the people: the foreign-owned sector has delivered considerable employment opportunities in rural parts of Ireland, where prospects have been in long term decline.

What's more, continuing strong export performance has been achieved against a background of an appreciating Irish pound and a recession among Ireland's main trading partners in the European Union.

Where a few years ago, the growth performance was driven largely by the export sector, led by the foreign-owned high technology companies, today there is a more balanced growth picture, with

> Ireland is ready to face the challenges of monetary union

exports complemented by a booming domestic economy, house prices rising and car sales reaching record levels. The achievement has been helped by sound fiscal and monetary policy, partly determined by the strait-jacket imposed by Ireland's adherence to the narrow band exchange rate mechanism, but helped by a labour policy that has kept wage increases to below inflation for the past two years.

Ironically, as Ireland ponders whether to join Emu, it is the UK that is shaping the debate. One question is whether Ireland's domestic manufacturing sector, which is heavily dependent on UK earnings, could withstand the appreciation of the Irish pound that would almost inevitably accompany any move to join Emu on the part of the Irish authorities.

A report by the commission's directorate general for economic and financial affairs published last month, says Ireland is well positioned as the Union moves towards the starting date for Emu. The country already meets two of three important convergence criteria for monetary union – on inflation and the budget deficit. And on the key issue of the size of its debt, commission officials say Ireland is approaching the ratio of 60 per cent of GDP.

However, the commission report highlights two areas of concern. One is referred to euphemistically as Ireland's "labour surplus" – the level of long-term unemployed, which has remained consistently higher than the Union average. Today, only Spain has a worse rate of unemployment. The second area of concern is the imbalance between savings and investment, reflecting in particular the low level of investment activity by indigenous as opposed to foreign-owned companies.

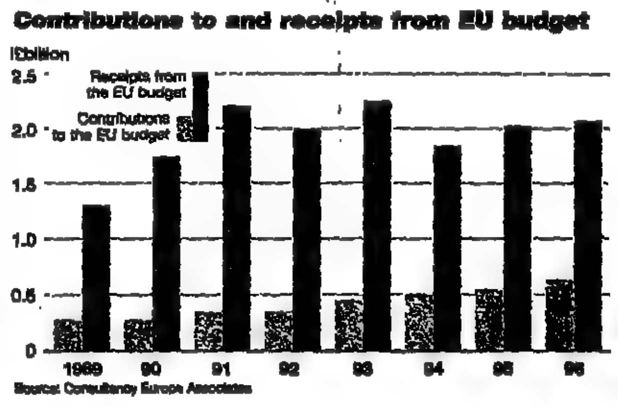
A more immediate challenge is for the government to avoid the spending pressures, ahead of the next election, which must be called before November 1997.

Already, the Programme for Competitiveness and Work, an Irish version of an incomes policy, is under review, with unions seeking further concessions when the new PCW pact is negotiated later this year.

Given the different policy complexions within the coalition, business men and women are concerned that not enough heed will be paid to the need to curb spending.

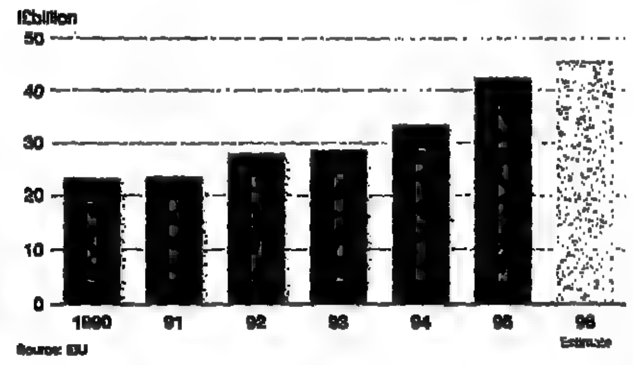
Already, the government has given ground on a series of civil servants pay disputes

Contributions to and receipts from EU budget



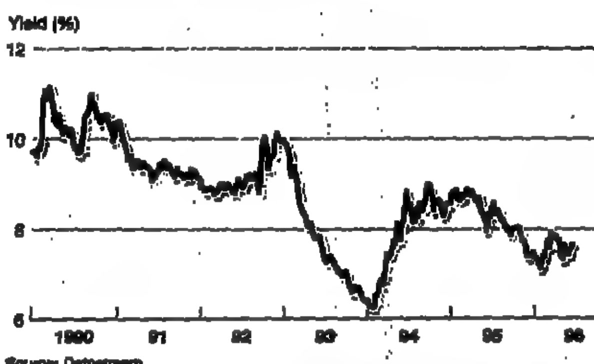
Source: Consultancy Europe Associates

Merchandise exports



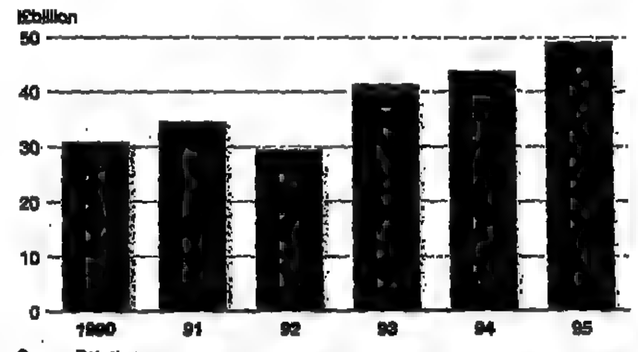
Source: EU

10 year benchmark bond



Source: Datastream

Foreign exchange reserves



Source: Datastream

Dublin's shares famine

The Dublin stock exchange is probably the one weak point in Ireland's burgeoning financial services sector. Although the index has matched European bourses, foreign institutions complain of poor liquidity and a shortage of stocks.

Since de-linking formally from London last year in line with European Commission rules on financial services, the exchange has performed respectably. But the market is narrow-based, with the top four companies accounting for more than 75 per cent of capitalisation. In addition, there are too few new issues to provide additional momentum. Indeed, the four most recent flotations of Irish companies have all looked outside Dublin, either to London or to the Nasdaq exchange in New York. The last new issue in Dublin was the flotation of DCC, the small industrial holding group, in 1994.

"It's frustrating to go abroad and make a convincing case for the Irish economy and then find you haven't got a menu of stocks to offer investors," says Mr Robbie Kelleher, head of research at Davys stockbrokers in Dublin.

The problem is partly one of scale. As Ireland's main blue-chip companies grow through foreign acquisitions, the focus of investor relations inevitably shifts to foreign institutions.

Apart from the two big banks, CRH, the building materials group, has also been successful in attracting UK shareholders. Elan Corporation, the Athlone-based drug company, is already approximately 80 per cent owned by US institutions, and is to all intents and purposes a US company, depite its domicile.

Of the market's four biggest stocks, all rely on Irish earnings for less than 50 per cent of profits. Of these, only CRH and Kerry Group, the dairy and food ingredients company, have outperformed the index. Kerry, strikingly, has achieved this without a significant foreign stakeholding.

With much of the market seen as fully valued, some foreign interest is now being shown in the second-line industrial and retail and hotel groups that replicate the Irish growth story.

Information technology industries: by John Murray Brown

IT helps reverse emigration trend

How investment by foreign electronics companies has transformed the country

At a small office *among the* dry stone walls of county Galway, Mr Liam Ferrie is turned on and tuned in. A Scotsman of Irish descent, who worked for one of the large US computer companies, Mr Ferrie has for the last nine years been publishing an electronic newsletter, available on the Internet, *for Irish expatriates who* want to know about job opportunities in the high technology sector back home.

His Irish Emigrant Professional is just *one of the many* elements of the information technology story in Ireland. As the country continues to lure the big foreign information technology companies, with the incentive system now skewed towards the sector, it is beginning to reverse the trend of emigration that peaked in the late 1980s.

Drive west out of Dublin today and in the small village of Leixlip you are confronted with a striking image of *how the industry is transforming* modern Ireland. At one end of the village is the Wonderful Barn, a curious 18th century *folly designed to provide work for the local Catholic Irish* peasantry. At the other end, stands the Intel factory, an expansive glass and brick building, where young technicians *wear T-shirts and jeans* and provide the US company with its main European base for the manufacture of the Pentium chip.

Although *less labour* intensive than many indigenous industries, the high-tech sector is now creating jobs at an impressive clip. Since the start of the year, the Sonopress CD-Rom plant in Balbriggan

A worker at Intel's Leixlip plant, which makes the Pentium chip

has announced the creation of 300 jobs in a I£10m investment, *Eastman Kodak's CD-Rom* plant in Youghal has created 250 posts, and Digital, which caused a stir a *few years ago* with the closure of its Galway plant, has announced that there will be work for 225 people at its PC technical support centre in Dublin.

The country now accounts *for* 40 per cent of all US new inward investment in electronics in Europe, including wafer design and manufacture, systems, components, peripherals, *communications networks* and software. In 1995, the Industrial Development Agency (IDA) secured 22 greenfield investments and expan*sion projects. The highlight* was Intel's decision in the summer to locate the production of its new generation P14 chip for the personal computer market *in Ireland.*

Multinationals as a whole now account for 75 per cent of manufacturing exports, 55 per cent of manufacturing output *and 45 per cent of manufactur*ing employment. Electronics is now the leading force, responsible for 28 per cent of Irish exports in 1994, compared with just 14 per cent in 1980.

The breakthrough came with the government's decision to offer a special 10 per cent corporate tax rate for companies involved in manaufacturing. The concession applied to both indigenous and foreign businesses and was particularly attractive to high technology *companies*, which enjoy high growth rates but are required to make large research and development investments.

The availability of a young, *skilled and English speaking* workforce was also critical to the development of the industry. According to the latest report from the Organisation *for Economic Co-operation* and Development, Ireland has a higher proportion of graduate scientists than any other OECD member except Japan. *This partly reflects* government education priorities – money has been spent on new technical colleges – and partly the efforts of companies to improve standards by liaising with the universities.

A recession in the industry would have knock-on effects for the entire Irish economy. Fortunately, its future looks fairly secure. The slowdown in the PC market earlier this year caused a frisson of concern among industry analysts, but Mr Kieran McGowan, the head of IDA, *says* this is relative, merely meaning that the sector grows by 15 per cent to 20 per cent, as opposed to the 25 per cent achieved in 1995.

Some academic economists question the contribution the high tech industries make, arguing that foreign companies are inflating their Irish operations, through transfer pricing, so as to maximise the proportion of their global revenues that qualify for the low tax rate. Mr Anton Murphy, an economist at Trinity College, *makes the point* that Ireland showed little of the much-vaunted "feel-good" factor normally associated with an economy that is growing at more than 5 per cent and that has a balance of payments surplus in line with Switzerland and Germany and a labour productivity record that would compare with Japan.

But the sceptics are in a minority. An increasing number of economists believe the foreign investment companies are showing the first signs of deepening their roots in Ireland. Mr Jim O'Leary, an analyst at Davys stockbrokers in Dublin, says the latest balance of payments figures suggest that the rate of profit repatriation by the multinational sector may be slowing down, suggesting that a larger proportion of earnings is now being reinvested. As skills levels improve, the next big question for the foreign multinationals will be whether to move their design and marketing arms under the roof of their Irish operations.

Found in 'translation'

For more than a decade, North American software companies such as Lotus, *Microsoft, Corel, Claris and Symantec* have been choosing Dublin as the centre for the duplication, packaging and distribution of their software to the European market. Half of the PC software sold in Europe now originates in Ireland.

A key element of the industry in Ireland, and a principal factor behind its European pre-eminence, is localisation, the process whereby software, together with on-screen help facilities and supporting documentation, is adapted to the cultural and practical needs of individual markets.

The contribution of the field to the Irish economy is substantial. The *Software Localisation Interest Group*, a forum that brings together Irish-based localisation companies, estimates that it employs 4,000 of the 12,000 people who work in the software industry in Ireland and that localised products feed an export market worth I£lbn.

Both Microsoft's Windows 95, released in 20 languages – 10 at the launch date and another 10 within four months – and Lotus's Notes 4.0, rolled out in 10 languages for four different computer platforms, were adapted in Ireland.

The country's success in attracting this kind of inward investment reflects several factors. Government incentives, principally in the form of low corporate taxation, have helped the Industrial *Development Agency* lure North American companies.

EU and government funds have been wisely used to revolutionise the telecommunications infrastructure, to support education and training and to encourage initiatives such as the Localisation Resources Centre.

Set up with the support of companies, the centre aims to pool software resources and tools, allow for the exchange of information and provide specialised training.

Mr Reinhard Schäler, manager of the centre, believes the Irish localisation business offers a "unique" spirit of *openness, with corporate interests set* aside. "Companies are opening up and showing their in-house [developed] localisation tools to one another and sharing or swapping tools," he says.

Sharing of expertise must be helpful. The localisation process is a complex one and extends far beyond translation. Cultural sensitivities must be respected in the use of colour, style, forms of address, and the selection of images and graphical representations. Practical demands require the conversion of units of measure and standards such as weights and currencies.

More fundamental modifications are often required, for example in financial software, which may be geared to *particular systems of accounting and* taxation.

However, software is increasingly constructed with localisation in mind. "The way the base product is engineered has a major impact on the effort involved in localising it," explains Ms Aine Woods, localisation project manager at Corel Corporation.

Good design allows core elements of the software to be changed and tested with ease, while protecting the original program from being adversely affected.

The fact that initiatives are being taken to make Ireland's young and highly educated workforce even more skilled *should also aid the localisation process.* New degree courses in software localisation are being prepared at the University of Limerick and University College Dublin.

Ireland looks set to consolidate its position in software localisation. Mr Ian Dunlop, development director, communications products at Lotus Development, concludes: "Localisation in Ireland has become a mature industry, characterised by its openness, compared with the secrecy of the early days, and by its well-defined structure."

Julian Perkin

CASE STUDY **Kerry Group**

Glorious food stock

Mr Denis Brosnan would no doubt like a few quiet days to spend time with his horses. But in recent months, the managing director of Kerry Group, *who is also chairman* of the Irish Horseracing Authority, has had little opportunity to linger. His company is pursuing a hectic global strategy that has become the envy of the Irish food sector.

Today, the Tralee-based food and food ingredients concern is setting the pace in an industry that – if no longer flavour of the month for Dublin stockbrokers – remains vital to the health of the Irish economy.

For all the glamour attached to Ireland's high technology sector, the food industry is still the bulwark of the economy, accounting for the direct employment of almost 200,000 people. The sector has an annual output of I£8bn and contributes more than I£5bn in net exports. When the low import content of Irish food companies is taken into account, food makes up some 40 per cent of total net exports.

In the public eye, the industry is still living with the bad feeling left by the 1993 Beef Tribunal, where Irish companies were accused of fraudulently misusing European intervention subsidies. The government, and therefore in turn the Irish taxpayer, was left to meet a record I£68m fine imposed by the European Commission.

Today, the food business is having to cope with an uncertain international environment, as it adjusts to the ending of market support in the European Union and to a new global trade regime under the Gatt accords. It is bracing itself for what many analysts in the sector believe will be negative impact if Ireland joins the European single currency without the UK. The Irish Farmers union has been the one body that has publicly come out and stated its opposition to Dublin's participation in Emu: many food companies are heavily dependent on UK-based earnings and these could be badly hit if there is a big divergence in exchange rates between the two countries.

Meanwhile, Irish beef producers, partly because of the shared land border with the UK, have been tarred with the same brush as producers across the Irish Sea. Irish embassies across Europe and further afield have launched a public awareness campaign in a bid to differentiate the Irish product.

Denis Brosnan, faithful to his Irish domicile

Few companies have been able to rest on their laurels. While quotas prevailed in Europe for dairy and other products, there was little possibility of organic sales growth. But changes have prompted two parallel and related moves – a consolidation through mergers at home or abroad and a diversification through acquisition as companies seek to achieve international scale.

Concerns such as Avonmore and Waterford Foods – who, like Kerry, both have a co-operative shareholder base – chose to remain in the dairy sector but to expand through acquisition, in Avonmore's case by buying up capacity in the UK when the milk marketing board was deregulated.

Kerry's strategy involved a move into food ingredients. "We thought that milk and meat were too much tied to what happened in Brussels. That was the reality – we tried to move to freer markets," says Mr Brosnan.

In 1994, the company bought DCA, Allied Domecq's food ingredients business. Mr Brosnan says that this one deal, which cost the company $420m, transformed not just Kerry's balance sheet but also the entire investor profile of the company.

"In Europe, we're still perceived as a food company, even though only a third of our turnover is derived from primary food products. In the US, food ingredients companies are a separate sector, more akin to pharmaceutical companies, and with a rating to match," he says.

The market would appear to like the takeover. Indeed, despite the fact that much of the international interest in Dublin stocks has been in companies that enjoy an exposure to the domestic growth story, Kerry *has* outperformed the index while depending increasingly on overseas corporate earnings. And it has done so without developing a significant foreign shareholder base – although Mr Brosnan will be keen to see an increased overseas holding.

In recent months, Mr Brosnan has turned his attention to the reorganisation of the company's share structure.

It is a sensitive issue. The 5,000 farmers making up the Kerry Creameries Co-op still hold considerable sway over the fortunes of the listed company – the co-operative appointing 15 of the 20 board members, all non-executive directors. The co-operative is currently restricted from reducing its stake in the public company below 51 per cent without approval from its farmer shareholders. However, Mr Brosnan is now seeking the necessary 75 per cent approval from the Co-op to reduce the threshold.

Mr Joe Gill, food analyst at Riada stockbrokers in Dublin, says the share restructuring would release considerable value for the farmers. For investors, the exercise should over the long-run encourage greater liquidity in the stock, and provide more flexibility for the management when it comes to consider how to structure future deals. Because of the inability to dilute the co-operative's shareholding, in the past deals have tended to rely more on debt than equity.

Mr Brosnan has proposed that the co-operative shareholders be given an option to reduce their holding to 39 per cent. The company would stipulate that the co-operative shareholding would not fall below 20 per cent without further rule changes. Accompanying this change, the board is to propose a reduction in the number of co-operative members on the board from 15 to nine.

As for changing Kerry's Irish domicile to reflect the increasingly international profile of the company, Mr Brosnan's views are quite clear.

"This is my county. I know every part of it, and all the people in it. I see no reason why the corporate headquarters can't stay here forever and a day," he says. "Besides, our organisation has put this county on the map".

John Murray Brown

Golf and tourism: by Kieran Cooke

Where rain won't stop play

Despite unreliable weather, the greens of the west coast have much to offer the golfer

It is a June evening. The sun sparkles on the bay. You tee off and hit straight down the fairway. But then there is a sudden burst of hailstones. You put on the oilskins, battle to raise the umbrella and, scarcely before you've finished, a velvety hush descends in the air.

The sun is out again. You are left dripping and amazed. The fellow upstairs pulling the weather levers is doubled up with laughter.

Welcome to the game of golf in the west of Ireland. The most predictable thing about the weather on Ireland's Atlantic seaboard is that it's unpredictable. The same goes for the country's golf courses. More than 270 in number, they range from the pristine and perfectly laid out to the downright eccentric.

There are the championship courses such as Ballybunion, Portmarnock and Rosses Point where you need to bring along the usual fat wallet to pay for a round – plus an arm and a leg.

Then there are the more modest establishments. Here, for under £10, you can enjoy a *day's pleasant hacking from* green to green, rarely bothered by more than two or three other players.

Leaving the swagger of Dublin well behind you, *tilt* your hat due west till you hit the Atlantic in Westport, County Mayo. Westport and its surroundings have some fine *places to stay* and enough good restaurants and pubs to satisfy the most demanding of tastes.

Westport golf course is in Ireland's first division and includes some knee-wobbling drives over water. However, the trouble with the big courses is that a considerable degree of skill is needed even to complete a round. The nine holers offer much more latitude to the dedicated duffer.

Ballybunion: at the championship-level extreme of Ireland's 270 courses

A few miles north of Westport on the Newport road turn left to Kilmeena. There, an enterprising farmer has, with a little bit of help from the EU, turned his land into a gem of a course. *The clubhouse is a Portakabin.* Some of the greens are perched high up over the bay, like take-off ramps on an aircraft carrier.

*Mulrany is on through New*port on the road to Achill Island. The club house here is a caravan sunk in a sand dune. Mulrany is an old-fashioned *links course, but doesn't have* the terrifying long beach grass that seems to exercise a magnetic attraction on golf balls. The greens, always in excellent *condition, are surrounded by* barbed wire to keep out the cows and sheep.

Achill and Belmullet are two other nine holers within a half-hour drive of *Mulrany*. Sometimes the winds at Achill are such that retaining any perpendicular stance is next to impossible.

At Belmullet the course is invaded by daisies at certain times of year. I despaired of ever finding my golf ball on the course until I met the local parish priest. "We always play with yellow balls," he said. (The next time I played there the course was full of buttercups.)

If the energy levels are high, all four courses can be played in a day.

If the sun, wind, rain and *hail do not take your breath* away, the views will. On the opposite side of the bay from Mulrany is Croagh Patrick, Ireland's conically shaped *sacred mountain. It is from* there that St Patrick is said to have banished the snakes from Irish soil.

From Belmullet you look *straight out towards the* Americas. Hardship once forced thousands to leave and go across the ocean in search of jobs. "They were leaving so fast it was as if there was a tunnel all the way to New York," said the priest.

Thankfully, these are better times. Locals still complain that much of the new investment and jobs are going to Dublin and that the population in most western areas is continuing to decline. However, a tourism upsurge has brought new employment opportunities.

Reflecting the growth of the *tourist industry*, standards of accommodation have improved. There was a time when the Irish breakfast was the only meal worth having; *nowadays*, good-quality restaurants are opening in even the most remote areas.

In spite of the tourist influx and improved communications *with the outside world*, the west of Ireland retains its own relaxed, contrary and unpredictable character.

The visiting golf enthusiast *should* bring along a summer hat, sun lotion and ointment – to stop the midges biting on the warm summer evenings. A pair of wellingtons, a good macintosh and a heavy sweater would also be advisable. Just in case of change.

هكذا من الاصل

CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

Jun 21		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	16.5718	+0.0326	636 - 799	16.5807	16.4986	16.5405	2.3	16.4650	2.6	-	-	104.8
Belgium	(BFr)	48.4578	+0.0978	380 - 765	48.4800	48.2260	48.3526	2.6	48.1458	2.6	47.1428	2.7	105.5
Denmark	(DKr)	9.0658	+0.0158	622 - 694	9.0698	9.0339	9.0515	1.9	9.0224	1.9	8.9006	1.8	107.3
Finland	(FM)	7.1579	+0.0108	505 - 653	7.1653	7.1380	7.1535	0.7	7.1454	0.7	-	-	83.0
France	(FFr)	7.8614	+0.0136	785 - 852	7.8662	7.8473	7.8585	1.9	7.8435	1.9	7.831	1.9	108.5
Germany	(DM)	2.3547	+0.0047	538 - 557	2.3567	2.3442	2.3489	2.4	2.3388	2.7	2.2894	2.6	109.1
Greece	(Dr)	371.777	+0.282	615 - 938	373.029	370.517	-	-	-	-	-	-	67.6
Ireland	(I£)	0.9719	-	714 - 724	0.9725	0.9712	0.9714	0.6	0.9702	0.7	0.9657	0.6	98.4
Italy	(L)	2370.45	+3.71	888 - 181	2371.81	2360.15	2377	-3.3	2388.15	-3.0	2421.4	-2.1	78.8
Luxembourg	(LFr)	48.4578	+0.0978	380 - 765	48.4800	48.2260	48.3526	2.6	48.1458	2.6	47.1428	2.5	105.5
Netherlands	(Fl)	2.6387	+0.0058	377 - 396	2.6479	2.6293	2.6322	3.0	2.6168	3.0	2.5622	2.9	108.5
Norway	(NKr)	10.0681	+0.0106	600 - 761	10.0771	10.0296	10.0596	0.8	10.0426	1.0	9.9591	1.1	98.3
Portugal	(Es)	241.519	+0.343	702 - 936	241.961	241.087	242.244	-2.1	243.149	-2.2	-	-	96.7
Spain	(Pta)	197.858	+0.092	880 - 031	198.278	197.325	198.218	-1.6	198.731	-1.5	200.131	-1.1	80.5
Sweden	(SKr)	10.2331	+0.0216	230 - 431	10.2362	10.1698	10.2234	0.9	10.2058	0.9	10.2813	0.0	85.5
Switzerland	(SFr)	1.9417	+0.0074	405 - 428	1.9430	1.9321	1.9367	3.1	1.9259	3.2	1.8777	3.3	110.4
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	85.9
Ecu	-	1.2417	+0.0001	411 - 423	1.2427	1.2386	1.2404	1.2	1.2374	1.4	1.2241	1.4	-
SDR†	-	1.068100	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5380	-0.0015	375 - 385	1.5412	1.5367	-	-	-	-	-	-	-
Brazil	(R$)	1.5442	-0.0013	436 - 448	1.5450	1.5403	-	-	-	-	-	-	-
Canada	(C$)	2.1036	-0.0041	029 - 048	2.1068	2.1001	2.1031	0.4	2.0995	0.8	2.0814	0.8	84.4
Mexico	(New Peso)	11.6643	-0.029	578 - 708	11.6777	11.6313	-	-	-	-	-	-	-
USA	($)	1.5402	-0.0014	398 - 405	1.5417	1.5365	1.5398	0.3	1.5395	0.2	1.5458	-0.1	97.2
Pacific/Middle East/Africa													
Australia	(A$)	1.9477	-0.0068	466 - 488	1.9518	1.9458	1.9508	-1.8	1.9553	-1.6	1.9808	-1.7	88.7
Hong Kong	(HK$)	11.9223	-0.0105	186 - 259	11.9335	11.8948	11.9142	0.8	11.9026	0.7	11.8828	0.3	-
India	(Rs)	53.6743	-0.1276	541 - 945	53.9440	53.3541	-	-	-	-	-	-	-
Israel	(Shk)	5.0330	-0.0011	293 - 367	5.0387	5.0147	-	-	-	-	-	-	-
Japan	(Y)	167.861	+0.098	777 - 945	167.990	166.500	167.136	5.2	165.648	5.3	159.231	5.1	134.4
Malaysia	(M$)	3.8450	-0.001	424 - 466	3.8491	3.8304	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.2591	-0.0038	577 - 604	2.2705	2.2542	2.2741	-8.0	2.2935	-2.5	2.3174	-2.1	108.5
Philippines	(Peso)	40.3443	-0.0457	812 - 073	40.4073	40.2812	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.7766	-0.0052	749 - 783	5.7817	5.7630	-	-	-	-	-	-	-
Singapore	(S$)	2.1712	-0.0002	699 - 724	2.1724	2.1654	-	-	-	-	-	-	-
South Africa	(R)	6.7236	-0.0001	198 - 274	6.7274	6.7036	-	-	-	-	-	-	-
South Korea	(Won)	1243.13	-0.68	282 - 363	1251.15	1239.83	-	-	-	-	-	-	-
Taiwan	(T$)	42.3313	-0.0601	139 - 486	42.5683	42.4919	-	-	-	-	-	-	-
Thailand	(Bt)	39.0426	-0.0394	185 - 671	39.0520	38.9330	-	-	-	-	-	-	-

† Rates for Jun 20. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1985 = 100. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jun 21		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan index
Europe													
Austria	(Sch)	10.7599	+0.0315	570 - 627	10.7875	10.7230	10.7404	2.2	10.6984	2.3	10.5149	2.3	104.8
Belgium	(BFr)	31.4630	+0.093	330 - 930	31.4760	31.3580	31.408	2.1	31.282	2.2	30.753	2.3	106.2
Denmark	(DKr)	5.8863	+0.0158	833 - 873	5.8887	5.8698	5.8788	1.5	5.8618	1.7	5.7928	1.6	106.6
Finland	(FM)	4.6476	+0.0113	438 - 513	4.6513	4.6342	4.6411	1.7	4.6291	1.6	4.5836	1.4	82.2
France	(FFr)	5.1022	+0.0137	917 - 927	5.1090	5.1876	5.1793	1.8	5.1606	2.2	5.0932	1.7	108.2
Germany	(DM)	1.5289	+0.0045	285 - 292	1.5302	1.5243	1.5264	2.0	1.5206	2.2	1.4924	2.4	107.8
Greece	(Dr)	241.390	+0.41	340 - 440	242.510	240.740	243.085	-8.3	248.413	-8.3	260.38	-7.9	65.9
Ireland	(I£)	1.5847	-0.0016	842 - 852	1.5865	1.5814	1.5853	-0.4	1.5861	-0.4	1.5978	-0.4	-
Italy	(L)	1539.10	+4.85	850 - 970	1540.30	1533.65	1543.85	-3.7	1552	-3.4	1574.75	-2.3	78.4
Luxembourg	(LFr)	31.4630	+0.093	580 - 680	31.4760	31.3580	31.41	2.0	31.3035	2.0	30.823	2.0	106.2
Netherlands	(Fl)	1.7133	+0.0054	130 - 135	1.7202	1.7088	1.71	2.5	1.7028	2.4	1.6711	2.5	106.2
Norway	(NKr)	6.5371	+0.013	353 - 408	6.5433	6.5200	6.5341	0.5	6.5286	0.5	6.4921	0.7	97.8
Portugal	(Es)	157.010	+0.37	970 - 050	157.100	156.640	157.325	-2.4	157.915	-2.3	160.05	-1.9	94.8
Spain	(Pta)	128.530	+0.18	510 - 550	128.680	128.090	128.78	-2.3	129.21	-2.1	130.75	-1.7	80.2
Sweden	(SKr)	6.6442	+0.0203	382 - 492	6.6492	6.6076	6.6552	-2.0	6.6737	-1.7	6.7147	-1.1	90.0
Switzerland	(SFr)	1.2607	+0.0059	602 - 612	1.2620	1.2560	1.2571	3.4	1.2497	3.5	1.2162	3.5	110.1
UK	(£)	1.5402	-0.0014	398 - 405	1.5417	1.5365	1.5398	0.3	1.5395	0.2	1.5418	-0.1	85.3
Ecu	-	1.2404	-0.0012	400 - 407	1.2426	1.2380	1.2411	-0.7	1.2426	-0.8	1.2516	-0.9	-
SDR†	-	0.69950	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9986	-	985 - 987	1.0001	0.9985	-	-	-	-	-	-	-
Brazil	(R$)	1.0027	+0.0002	025 - 028	1.0028	1.0025	-	-	-	-	-	-	-
Canada	(C$)	1.3660	-0.0014	657 - 662	1.3678	1.3657	1.3659	0.0	1.3661	0.0	1.3669	-0.2	83.6
Mexico	(New Peso)	7.5735	+0.026	710 - 760	7.5760	7.5710	7.735	-25.6	7.92	-18.3	9.6635	-27.9	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	97.7
Pacific/Middle East/Africa													
Australia	(A$)	1.2645	-0.0032	642 - 650	1.2663	1.2680	1.2665	-1.9	1.27	-1.7	1.2887	-1.9	94.4
Hong Kong	(HK$)	7.7410	+0.0005	405 - 415	7.7415	7.7405	7.7417	-0.1	7.7435	-0.1	7.7705	-0.4	-
India	(Rs)	34.8500	-0.05	300 - 500	35.0700	34.6500	35	-5.2	35.305	-5.2	36.775	-5.5	-
Israel	(Shk)	3.2679	+0.0024	652 - 685	3.2695	3.2624	-	-	-	-	-	-	-
Japan	(Y)	108.990	+0.75	960 - 020	109.050	108.200	108.545	4.9	107.645	4.9	103.905	4.7	139.9
Malaysia	(M$)	2.4965	+0.0017	960 - 970	2.4970	2.4940	2.4974	-0.4	2.5015	-0.8	2.537	-1.2	-
New Zealand	(NZ$)	1.4732	-0.0011	725 - 735	1.4735	1.4727	1.4763	-2.5	1.4821	-2.4	1.5067	-2.3	-
Philippines	(Peso)	26.1950	-0.005	600 - 300	26.2300	26.1600	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7507	+0.0002	504 - 509	3.7509	3.7504	3.7511	-0.1	3.7519	-0.1	3.7582	-0.2	-
Singapore	(S$)	1.4097	+0.0012	092 - 102	1.4102	1.4087	1.4062	3.0	1.4002	2.7	1.3747	2.5	-
South Africa	(R)	4.3645	+0.004	620 - 670	4.3680	4.3630	4.412	-13.1	4.502	-12.6	4.8395	-10.9	-
South Korea	(Won)	807.150	-0.4	000 - 300	813.700	805.000	-	-	-	-	-	-	-
Taiwan	(T$)	27.6150	-0.035	100 - 200	27.6600	27.6100	27.62	-0.2	27.625	-0.1	-	-	-
Thailand	(Bt)	25.3500	-0.03	400 - 600	25.3450	25.3210	25.448	-4.7	25.6825	-4.8	26.535	-4.7	-

† SDR rate per $ for Jun 20. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Jun 20. Base average 1990=100

WORLD INTEREST RATES

MONEY RATES

June 21	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	3¼	3¼	3⅜	3½	3½	7.00	2.50	-
week ago	3⅛	3¼	3⅜	3⅜	3½	7.00	2.50	-
France	3¾	3⅞	3⅞	4	4¼	3.60	-	5.60
week ago	3⅞	3⅞	3⅞	4	4¼	3.60	-	5.60
Germany	3⅜	3⅜	3⅜	3⅜	3⅝	4.50	2.50	3.30
week ago	3⅜	3⅜	3⅜	3⅜	3⅝	4.50	2.50	3.30
Ireland	5⅞	5⅜	5⅜	5⅝	5¾	-	-	6.25
week ago	5⅞	5⅜	5½	5⅝	5¾	-	-	6.25
Italy	8⅞	8⅝	8⅝	8⅝	8½	-	9.00	9.30
week ago	8⅞	8¾	8⅝	8⅝	8½	-	9.00	9.35
Netherlands	2⅞	2⅞	3	3	3⅛	-	3.00	3.30
week ago	2⅞	2⅞	2⅞	3	3⅛	-	3.00	3.30
Switzerland	2⅝	2⅜	2⅜	2⅜	2½	5.00	1.50	-
week ago	1⅝	2¼	2⅜	2⅜	2½	5.00	1.50	-
US	5⅜	5⅜	5⅜	5⅝	6	-	5.00	-
week ago	5⅜	5⅜	5⅜	5⅝	6	-	5.00	-
Japan	½	½	½	⅝	¾	-	0.50	-
week ago	⅜	½	½	⅝	¾	-	0.50	-

■ S LIBOR FT London								
Interbank Fixing	-	5⅜	5½	5⅝	6	-	-	-
week ago	-	5⅜	5½	5⅝	6	-	-	-
US Dollar CDs	-	5.10	5.27	5.48	5.85	-	-	-
week ago	-	5.10	5.20	5.43	5.81	-	-	-
ECU Linked Ds	-	4⅛	4⅛	4⅛	4⅜	-	-	-
week ago	-	4⅛	4⅛	4⅛	4⅜	-	-	-
SDR Linked Ds	-	3⅜	3⅜	3⅜	3⅝	-	-	-
week ago	-	3⅜	3⅜	3⅜	3⅝	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Jun 21	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
D-Mark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dutch Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
French Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portuguese Esc.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spanish Peseta	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Swiss Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Can. Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italian Lira	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH EUROFUTURES / EURODOLLAR (IMM) $1m points of 100% [illegible]

■ US TREASURY BILL FUTURES (IMM) $1m per 100% [illegible]

All Open interest figs. are for previous day

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Jun 21		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.71	16.47	4.860	2.006	4891	5.444	20.78	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Denmark	(DKr)	53.45	10	8.803	2.598	1.072	2614	2.910	11.11	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
France	(FFr)	60.72	11.36	10	2.951	1.218	2970	3.305	12.62	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Germany	(DM)	20.58	[illegible]	3.389	1	0.413	1006	1.120	4.275	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ireland	(I£)	49.86	9.327	8.211	2.423	1	2438	2.714	10.36	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italy	(L)	2.045	[illegible]	0.337	0.099	0.041	100.	0.111	0.425	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Netherlands	(Fl)	18.37	3.437	3.025	[illegible]	0.368	[illegible]	1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Norway	(NKr)	48.12	9.003	7.926	2.339	0.965	2354	2.620	10	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portugal	(Es)	20.04	3.749	3.301	0.974	0.402	980.1	1.091	4.165	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spain	(Pta)	24.49	4.581	[illegible]	1.190	0.491	1198	1.333	5.088	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden	(SKr)	47.37	8.862	7.802	2.302	0.950	2317	2.579	9.844	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Switzerland	(SFr)	24.96	[illegible]	4.110	1.213	0.501	1220	1.358	5.185	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
UK	(£)	[illegible]	9.066	7.961	2.355	0.972	[illegible]	2.638	10.07	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Canada	(C$)	23.03	[illegible]	3.765	1.119	0.462	1128	1.254	4.786	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US	($)	31.47	5.887	5.182	[illegible]	0.631	1539	1.713	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japan	(Y)	[illegible]	5.403	4.756	1.403	0.579	1412	1.572	6.001	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ecu		39.02	7.300	[illegible]	1.898	0.783	1906	2.124	8.108	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Sett price	Change	High	Low	Est.vol	Open int.
Sep	0.6593	0.6549	-0.0046	0.6595	0.6542	18,330	83,450
Dec	0.6613	0.6585	-0.0046	0.6617	0.6577	28	1,844
Mar	-	0.6630	-0.0046	-	0.6655	1	28

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Sett price	Change	High	Low	Est.vol	Open int.
Sep	0.8019	0.7942	-0.0071	0.8019	0.7930	11,815	34,536
Dec	0.8050	0.8002	-0.0073	0.8050	0.7997	1	1,115
Mar	-	0.8068	-0.0073	-	0.8065	9	88

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Sett price	Change	High	Low	Est.vol	Open int.
Sep	0.9354	0.9271	-0.0085	0.9365	0.9263	14,519	86,567
Dec	0.9440	0.9386	-0.0085	0.9440	0.9361	19	3,604
Mar	0.9565	0.9505	-0.0085	[illegible]	0.9510	41	148

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Sett price	Change	High	Low	Est.vol	Open int.
Sep	1.5362	1.5346	-0.0036	1.5408	1.5340	7,788	40,529
Dec	1.5382	1.5352	-0.0034	1.5410	1.5370	902	1,020
Mar	-	1.5358	-0.0034	1.5420	1.5380	1	6

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Jul	Aug	Sep	PUTS Jul	Aug	Sep
1.510	2.59	3.01	3.34	0.17	0.43	0.68
1.520	1.91	2.34	2.56	0.29	0.70	0.98
1.530	1.21	1.72	2.02	0.50	1.00	1.40
1.540	0.68	1.21	1.51	0.99	1.55	1.89
1.550	0.39	0.81	1.10	1.64	2.15	2.51

Previous day's vol., Calls 3,556 Puts 4,559 . Prev. day's open int., Calls 182,992 Puts 139,814

■ Pound in New York

Jun 21	— Close —	— Prev. close —
£ spot	1.5365	1.5385
1 mth	1.5362	1.5381
3 mth	1.5349	1.5378
1 yr	1.5372	1.5400

FT GUIDE to WORLD CURRENCIES

The FT Guide to World Currencies table can be found on the Markets page in today's edition.

BANK RETURN

BANKING DEPARTMENT	Wednesday June 19, 1996	Increase or decrease for week
	£	£
Liabilities		
Capital	14,553,000	
Public deposits	1,018,517,887	-149,724,758
Bankers deposits	1,799,716,050	-216,996,587
Reserve and other accounts	3,647,857,987	-531,968,602
	6,480,644,924	-898,689,947
Assets		
Government securities	1,180,151,400	-359,837,500
Advance and other accounts	[illegible]	-1,039,623,887
Premise, equipment and other secs	3,952,955,460	+496,306,301
Notes	10,533,685	+4,446,808
Coin	[illegible]	+18,391
	6,480,644,924	-898,689,947
ISSUE DEPARTMENT		
Liabilities		
Notes in circulation	20,309,466,315	[illegible]
Notes in Banking Department	10,533,685	+4,446,808
	20,320,000,000	+100,000,000
Assets		
Other Government securities	15,961,906,378	-888,000,102
Other Securities	4,358,093,622	988,000,102
	20,320,000,000	+100,000,000

UK INTEREST RATES

LONDON MONEY RATES

Jun 21	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling CDs	-	-	[illegible]	[illegible]	[illegible]	-
Treasury Bills	-	-	[illegible]	[illegible]	-	-
Bank Bills	-	-	[illegible]	[illegible]	-	-
Local authority deps.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Discount Market deps	[illegible]	[illegible]	-	-	-	-

UK clearing bank base lending rate 5¾ per cent from June 6, 1996

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	5

Certs of Tax dep. under £100,000 is 2¼pc. Deposits withdrawn for cash 1½pc. Ave. tender rate of discount on Jun 21, 5.5625pc. ECGD fixed rate Stg. Export Finance. Make up day May 31, 1996. Agreed rate for period Jun 26, 1996 to Jul 25, 1996, Schemes II & III 7.38pc. Reference rate for period May 1, 1996 to May 31, 1996, Schemes IV & V 6.104pc. Finance House Base Rate 6.5pc from Jun 1, 1996

BANK OF ENGLAND TREASURY BILL TENDER

[illegible]

FT GOLD MINES INDEX

[illegible]

LONDON RECENT ISSUES: EQUITIES

[illegible]

RIGHTS OFFERS

[illegible]

BASE LENDING RATES

[illegible]

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

■ "Tap" stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. Weekly percentage changes are calculated on a Friday to Friday basis.

STOCK INDICES

[illegible]

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Init Chrge | Notes | Selling Price | Buying Price | Yield Gr's | City-Line

Fidelity Currency Funds Ltd
Pembroke Hall, Pembroke, Bermuda
UK Prof Adviser 0800 414181 Jersey 01534 71696
Private Clients 0800 414161 00 352 250404220
From O'seas (44) 1732 777377 Hong Kong (852) 848 1000

Prices for dealing June 21

Jupiter Tyndall (Bermuda) Ltd
PO Box HM 1258, Hamilton, Bermuda 001 809 292 2700
Jupiter Tyndall World Umbrella Fund Ltd

Newport Investment Management
20 Reid St, PO Box HM 3396 Hamilton Bermuda
UK: 0171 336 6000 Dealing: 01481 710700

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

Sarasin Funds Mngmt (Guernsey) Ltd
PO Box 246, St Peter Port, Guernsey 01481 723021

Schroder Investment Mngmt (Guernsey) Ltd
PO Box 255, St Peter Port, Guernsey 01481 710651

GUERNSEY (REGULATED)(**)

Selling Price | Buying Price | Yield Gross | City-Line

ANZ Mngmt Co (Guernsey) Ltd
Emerging Mkt Liquid Int Ptso. | $17.39 | 17.64 | – | 48060

Apollo Investment Management Ltd
Japan | $12.108 | 12.902 | – | 55577
European | $9.963 | 10.53 | – | 55497

Arab Bank Fund Managers (Guernsey) Ltd
AB International Fund Ltd

Atlantis Fund Management (Guernsey) Ltd

BZW Asset Management Guernsey Ltd
Japan Index Fund | ¥2806.60 | 2575.00 | – | 48680

Bachmann Global Investment Fund Ltd

CIBC Fund Managers (Guernsey) Ltd

LGT Asset Management Ltd
(44) 171 710 4567 London (852) 845 7200 Hong Kong

Dragon Korea Fund Plc

Dynamic Pacific Portfolio Fund Plc

Egerton Capital European Fund Plc

Emerging Dynamic Fund Plc

Mercury Fund Managers IoM Ltd
12-13 Hill Street, Douglas IoM 01624 682555

Quilter Intl Mngt (IoM) Ltd
Po Box 82, 19-21 Circular Rd, Douglas 01624 622699

Sun Life Management (IoM) Ltd

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

Lloyds Private Banking (CI) Ltd

Lombard Odier (Jersey) Ltd

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

Fidelity Funds - Contd.

Fleming Group (n)

LUXEMBOURG (SIB RECOGNISED)

Schroder International Selection Fd - Contd.

LUXEMBOURG (REGULATED)(**)

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	Selling Price	Buying Price	Yield Gross	City-Line
Credit Commercial de France				
Daiwa Japan Gem Fund				
Daiwa Japan Gem	$10.54	10.70	-	44837
Daiwa Japan Small Equity Fd (x)				
Daiwa Japan Small Eq	$13.58		-	45757
Dicam Worldwide Investment Fund				
NAV	$29.85		-	44874
The Dragon Fund Sicav				
NAV Jun 18	$82.47		-	44480
Emerging Markets Brewery Fund SICAV				
NAV	$9.87		-	-
Europe Value Fund (z)				
EurOpinc (z)				
FMG Mir SICAV				
USA Balanced	$50.22		-	-
Fidelity Intl Inv Mngt (Luxembourg) SA				
New Europe Fd	$21.82	22.70	0.83	47380
Fidelity Investment (CI) Ltd				
The First Korea Smaller Companies Fund				
NAV May 31	$13.67		-	46525
Fleming Group				

	Selling Price	Buying Price	Yield Gross	City-Line
Nikko Bank (Luxembourg) S.A.				
Nikko Capital Management				
	Y100.4136		-	
Nomura Asian Infrastructure Fd SICAV				
NAV	$21.22		-	45197
Pacific Basin Growth Fund				
Pan-Holding SA				
Pictet Group				
Asia Growth	$100.79		-	-
REIG Global Funds				
River & Mercantile Latin American SICAV				
Latin American NAV	$10.47		-	-
Rosenberg Global Mngt Co SA (z)				
Rosenberg Management SA (z)				
Rosenberg US Japan Mngmt Co SA (z)				
Rothschild (Group Edmond de)				
SCI/TECH SA				
Scudder, Stevens & Clark				

CMI Insurance Co Ltd

Royal Life International - Contd.

Capital International

Cathay Investment Fund Limited

Cazenove Funds Management Ltd

Chameleon Funds Limited

Chesapeake Capital Corporation

Clemente Indian Investment Company Ltd

The China Fund

Global Asset Management - Contd.

Magnum Funds

Magna Asset Management

Malaysia Capital Fund Ltd

Malaysia Fund (Labuan)

Malaysia Growth Fund

E D & F Man Investment Products

Republic Funds

Rosenwald, Rodin & Co Ltd

Russia Value Fund LP

OTHER OFFSHORE FUNDS

ATEF Management Ltd

Africa Emerging Markets Fund

OFFSHORE INSURANCES

AXA Equity & Law Intl Life Assce Co

MANAGED FUNDS NOTES

ALCOHOLIC BEVERAGES

BANKS, MERCHANT

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING - Cont.

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Cont.

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

هكذا من الأصل

INV TRUSTS SPLIT CAPITAL - Cont.

LEISURE & HOTELS - Cont.

OTHER FINANCIAL - Cont.

PROPERTY - Cont.

SUPPORT SERVICES - Cont.

AIM - Cont.

PAPER, PACKAGING & PRINTING

TELECOMMUNICATIONS

RETAILERS, FOOD

LIFE ASSURANCE

TEXTILES & APPAREL

AMERICANS

MEDIA

RETAILERS, GENERAL

PHARMACEUTICALS

CANADIANS

TOBACCO

TRANSPORT

SOUTH AFRICANS

GUIDE TO LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

PHARMACEUTICALS - Cont.

RETAILERS, GENERAL - Cont.

OIL, EXPLORATION & PRODUCTION

PROPERTY

WATER

INVESTMENT COMPANIES

SUPPORT SERVICES

AIM

OIL, INTEGRATED

OTHER FINANCIAL

LEISURE & HOTELS

FT Share Service

The following changes have been made to the FT Share Information Service: Additions: Luminar (Brews, Pubs & Rest), REA Warrants (Distributors), Aberforth Smllr C (Inv Trusts), Railtrack (Transport). Deletions: BI Group (Eng), Lydenburg (Inv Co's), CentreGold (Leisure & Hotels), WPP Warrants (Media), US West (Americans).

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4 pm close June 21

NEW YORK STOCK EXCHANGE PRICES

1996 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
23¾	19⅞	AAR	0.48	2.4	21	208	20¼	19⅞	20	
48⅛	36⅞	AMP	1.00	2.5	20	11810	40¼	39	40¼	+⅝
87½	68	AMR			22	4820	92⅞	91¼	91¼	-¾
50½	37⅞	ASA	1.80	4.5	26	1077	40	39¼	39¾	-¼
44¾	38⅛	AbbtL	0.96	2.2	19	15784	43⅞	42¾	43¼	+½
17¾	13¼	Abitibi Pr	0.40	2.8	7	1370	14⅛	14	14⅛	-⅛
39	27	ABM Ind	0.70	1.8	19	75	39	38⅞	38½	+⅜
18¼	13⅞	Acptncetn			46	73	17⅞	17½	17¾	+⅛
50⅜	37¾	ACE Ltd	0.58	1.2	11	1321	48⅜	47¾	48⅝	+1⅜
9⅞	9⅛	ACM Gvt In	0.80	9.4	8	144	9¼	9⅝	9⅝	-⅛
7⅞	6⅝	ACM GvOpp	0.57	8.6		33	6⅝	d6⅝	6⅝	
7¼	6	ACM Gvt Sp	0.66	10.8		682	6⅛	d6	6⅛	+⅛
9⅛	8¼	ACM Gvt Se	0.90	10.6		178	8½	8⅜	8½	+⅛
9½	8½	ACM Mso	0.90	10.4		268	8⅝	d8½	8⅝	+⅛
30¾	16½	AcmeCv	0.52	1.7	7	18	30	29⅞	29⅞	
13⅞	6⅛	Acme Elect			50	362	9¼	8⅞	9	+¾
32½	27¼	Acordia	0.80	2.5	18	42	32⅜	32⅛	32⅜	+¼
21⅞	12	Acuson			74	651	16⅞	16	16⅜	-⅛
19½	18⅜	Adams Exp	1.66	8.7	6	56	19⅛	19	19	
21¼	13⅜	AdvMic				535742	15⅜	d13⅜	14⅛	-1⅝
11⅛	8½	Advest Grp	0.16	1.5	7	12	10⅝	10½	10½	-⅛
28⅛	9⅛	Advo Inc	0.10	1.0	68	365	10⅝	10⅜	10½	+¼
50⅜	41⅛	Aegon	1.19	2.7	13	126	45¼	44⅝	44¾	-1⅜
8¾	3½	Aerflx			3	322	5⅞	5⅝	5⅞	+¼
78¾	68⅜	Aeroat.	2.76	3.8	19	6432	73	72⅝	72⅝	-¼
[illegible]	[illegible]	[illegible]	0.40	1.4	12	4119	29¾	29¼	29½	-⅜
20⅜	17⅛	AGL Res	1.06	5.9	16	428	18⅛	17¾	18	+⅛
27⅝	21¼	Ahmnsn	0.88	3.3	7	2698	26½	26¼	26⅜	+⅛

Continued on next page

4 pm close June 21

NYSE PRICES

Continued from previous page

1996 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
69⅜	50½	ScbrPl	1.32	2.2	23	8114	60⅜	60	60⅜	+⅛
91⅞	65⅞	Schlmb	1.50	1.8	29	11713	82⅝	80½	82⅝	+2¼
14½	12⅛	Schlt			3	1342	10½	d10¼	10½	
27⅞	18⅝	SchwabC	0.16	0.7	24	2298	24⅞	23¾	24⅞	+⅞
28⅞	22¾	SchwMaud			14	691	28¾	28½	28⅝	
20⅝	13⅞	SciAtl	0.06	0.4	39	2815	15¼	14⅞	15¼	+⅝
21	17	Scotsmn	0.10	0.5	12	109	20⅜	20	20¼	+¼
45¾	38⅛	Scripps	0.52	1.2	27	221	45⅛	45	45⅛	
18⅛	14½	ScuddrNAsF	0.02	0.1		114	14⅝	d14½	14½	
12½	11	ScuddrNEuF	0.16	1.3		342	u12½	12⅜	12½	+⅛
20½	18	SeaCnB	0.70	3.5	2	47	20	19⅞	20	
16	15	SeaC1 4825	1.46	9.7		8	15½	15⅛	15⅛	
67¾	44¾	S'gate			17	15492	47	45	45	-1¾
38⅝	31¾	Seagrm x	0.60	1.8	23	5129	34¼	34	34¼	+¼
24⅝	17⅞	Seagull En			15	1991	22⅞	22⅜	22¾	-⅛
38⅛	25	Sealed Air			25	1467	34¾	33⅝	33½	-¾
53⅞	38¼	SearsR	0.92	1.9	14	19671	49¼	48⅛	49⅛	+½
22⅜	19¼	SecCapsSB	1.24	5.6	22	682	22⅛	21¾	22	-⅛
13	11⅞	Seligm Sel x	0.84	6.6		87	12¾	12½	12¾	+¼
23¾	12⅝	Sensormat	0.22	1.4	14	4505	16⅞	15⅞	16¼	-⅝
43	29½	SequaA	0.80	1.4	110	65	42¼	42⅛	42⅛	+⅛
49	39	SequaB	0.50	1.0	128	65	u49	47	48¾	
60¼	38⅞	SvcCp	0.48	0.8	30	3118	58⅜	57⅞	58½	+¼
34¾	28⅛	SvMstr	1.02	3.0	16	287	u34¼	34	34	
6¼	4½	ServMerch			11	2345	5⅞	5⅝	5⅝	-⅛
48¼	28½	SGSThm			8	1499	36½	35⅝	35⅞	-⅛

[illegible]

AMEX PRICES

4 pm close June 21

[illegible]

NASDAQ NATIONAL MARKET

4 pm close June 21

[illegible]

FT GUIDE TO THE WEEK

MONDAY 24

EU farm ministers

EU agricultural ministers meet in Luxembourg (to June 27) for the last council meeting under the Italian presidency. The package of compensation for beef farmers and the BSE problem is expected to form one lively area of debate. The Italians hope to conclude an agreement on the controversial issue of price controls for fruit and vegetables.

Whaling commission

The annual meeting of the International Whaling Commission opens in Aberdeen, Scotland. The IWC exists to conserve whale stocks in order to "make possible the orderly development of the whaling industry". But of the 39 member countries, only two – Japan and Norway – do any whaling: other countries, including Britain, oppose it. The commission will discuss a proposal to ban Japan's use of electric lances and look at other ways in which whales are commercially exploited – including whale-watching by parties of tourists. European Animal Aid will present a petition of more than 300,000 signatures calling for an end to international whaling.

Maritime transport

Negotiators seeking to liberalise maritime transport meet at the World Trade Organisation in Geneva to decide what to do now the US has said it cannot take part in a multilateral accord (to June 28). Among the options are a postponement of the talks until 2000, favoured by Washington, or 1998, favoured by Brussels. Norway, a big maritime nation, would prefer to strike a deal without the US.

Trinidad and Tobago poll

Municipal elections in Trinidad and Tobago are usually met with apathy by most voters. But they will not be ignored on this occasion. The incumbent coalition, led by Basdeo Panday, the prime minister, has been less than cohesive since it took office in November. Bickering over the allocation of seats for the municipal poll underlined the fragility of the government, which has a two-seat majority. If Mr Panday's party wins fewer seats than the opposition – led by Patrick Manning, a former prime minister – he will have little choice but to call an early general election.

Tennis

Lawn Tennis Championships at the All England Club, Wimbledon (to July 5). Boris Becker will be trying to make sure Pete Sampras doesn't make it four men's singles titles in a row. Monica Seles and Steffi Graf are the main contenders for the ladies' final.

Cricket

Second Test, Lord's: England v India.

Court action: A television camera is hoisted into position on the centre court at Wimbledon for today's tennis championships

FT Surveys

Spain; Ireland.

Public holidays

Andorra, Argentina, Canada (Quebec only), Estonia, Latvia, Luxembourg, Macau, Venezuela, Zaire.

TUESDAY 25

Iliescu visits Germany

President Ion Iliescu of Romania makes his first official state visit to Germany in an attempt to improve trade and economic relations. As well as focusing on Romania's ties with the European Union, the Germans will stress the importance of linguistic and cultural rights for Romania's 80,000 ethnic Germans.

Czech parliament convenes

The Czech parliament meets for the first time since an election in which the government of Vaclav Klaus, the prime minister, lost its majority. Mr Klaus says he will already have a new coalition agreement under his Civic Democratic party hammered out. If so, he is expected to be named prime minister, after which he has 30 days to win a vote of confidence.

Cricket

First round of NatWest Trophy.

Athletics

World Games in Helsinki.

FT Survey

Indonesia.

Public holidays

Mozambique, Slovenia.

WEDNESDAY 26

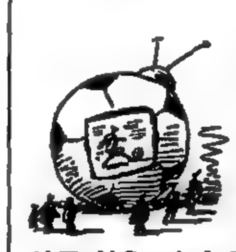
Election in KwaZulu Natal

The South African province of KwaZulu Natal holds its long-awaited local election amid hopes that peace initiatives from local politicians will calm tensions. The election has been postponed three times because of boundary disputes, bloodshed and administrative problems.

Mongolia in WTO talks

Talks resume in Geneva on Mongolia's application to join the World Trade Organisation. WTO officials say the talks are at an advanced stage, possibly enabling Mongolia to join the world trade body this year.

Football



The Euro 96 semi-finals. England, penalty shoot-out victors over Spain at Wembley on Saturday, are back at the national stadium to face title favourites and old World Cup rivals Germany who beat tournament newcomers Croatia in a hard-fought match at Old Trafford, Manchester, yesterday. France, who outscored Holland in another penalty decider at Anfield, Liverpool, on Saturday, are at Old Trafford to take on the winners of the Villa Park quarter-final.

Rugby League

European Super League Championship, Cardiff. Wales v England.

FT Surveys

Engineering Review; Power Generation Equipment.

THURSDAY 27

G7 summit in Lyon

Heads of government and finance ministers from the Group of Seven leading industrial countries arrive in Lyon, France, to begin their annual economic summit. The agenda includes reform of the United Nations and proposals to alleviate the debt burdens of poor countries. The Russian prime minister will have discussions on Friday and Saturday on prospects for Russia after the first round of its presidential election, progress on the reconstruction of Bosnia and the Middle East peace process following the election of Israel's right-wing government.

Pasok congress

Greece's governing Panhellenic Socialist Movement will go ahead with its extraordinary congress to elect a successor to its founder, Andreas Papandreou, who died yesterday. Costas Simitis, the Greek prime minister, who took over after Papandreou resigned in poor health in January, and Akis Tsohatzopoulos, the interior minister, a Papandreou lieutenant, are the top candidates to replace him as Pasok president.

Talks on East Timor

Boutros Boutros-Ghali, the United Nations secretary-general, holds a second round of talks on East Timor in Geneva with Indonesian foreign minister Ali Alatas and his Portuguese counterpart Jaime Gama. Indonesia, whose 1976 annexation of the territory has never been recognised by the international community, has threatened to force a showdown on the sovereignty issue in the UN if there is no progress in the talks with Portugal, the former colonial administrator.

Japanese shareholders

Most of Japan's top companies will hold annual shareholders' meetings. They include 1,880 listed companies, who make up 95 per cent of the Tokyo Stock Exchange, plus another 1,000 or so unlisted groups.

They are traditionally clumped together in an attempt to outwit corporate extortionists, or sokaiya, who attempt to extract cash from companies in return for a promise not to disrupt the brief and superficial rituals which companies like to preserve at these gatherings. The most interesting meeting will be at the Osaka-based Sumitomo Corporation, whose shareholders will be interested to know how it will handle a $1.8bn (£1.17bn) loss on copper trading.

Witnesses against Karadzic

Witnesses to alleged atrocities committed by Radovan Karadzic, the Bosnian Serb leader, and General Ratko Mladic, the Bosnian Serb commander, will be called to testify before an open hearing in The Hague at the UN tribunal for war crimes in former Yugoslavia.

Golf

French Open, Paris (to June 30).

FT Surveys

China; UK Research and Development.

FRIDAY 28

Kohl's savings package

Chancellor Helmut Kohl's government brings its DM70bn (£29.7bn) savings package before the Bundestag, the lower house of parliament, for its third and final reading. The proposals, designed to cut government spending and create new jobs at a time of record postwar unemployment, have been tinkered with following union protests and are expected to face further opposition in the Bundesrat, the second chamber, controlled by the opposition Social Democrats.

Spanish privatisation plans

Plans for selling state-owned shares in Spanish companies should become clearer when the new centre-right cabinet meets to discuss its privatisation programme. It is the first time a Spanish government has adopted an overall strategy for reducing state holdings. Main targets include stakes in the Repsol oil and gas combine, Telefónica, the Endesa electrical utility, the Argentaria banking group and the Tabacalera tobacco concern.

Test ban treaty

Disarmament negotiators in Geneva are due to conclude a test ban treaty for signing at the next session of the United Nations general assembly in September. The talks, which began in early 1994, continue at the 61-nation UN disarmament conference and include the five declared nuclear weapons states and the three "threshold" states – Israel, India and Pakistan. Of the five nuclear powers, only China is still testing. Beijing says it will observe a moratorium from September when the treaty is signed.

Take Your Dog to Work Day

Organised by the Blue Cross animal charity and Dogs Today magazine, Take Your Dog to Work Day aims to persuade employers to allow staff to take their canine friends into work. According to the Blue Cross, "taking your dog to work is a scientifically proven stress-buster". Participants are encouraged to donate £1 to the charity which last year found homes for 8,000 unwanted dogs, cats and horses.

Public holiday

Guatemala.

SATURDAY 29

Public holidays

Brunei, Chile, Costa Rica, Italy (Rome only), Malta, Peru, Seychelles, Tahiti, Vatican City.

SUNDAY 30

Moslems and Croats vote

Moslems and Croats go to the polls in the divided city of Mostar, southern Bosnia-Hercegovina, in a crucial test of the Dayton peace accord. The municipal elections, postponed last month because of a threatened Moslem boycott, provide for a new central administration in a city, currently run by the EU.

Dominican Republic run-off

A successor to President Joaquin Balaguer of the Dominican Republic will be elected in a run-off election, but it is unclear whether social democrat Jose Francisco Pena Gomez, who obtained most votes in May, will win. Leonel Fernandez, a centrist and Pena Gomez's rival, has the open support of Mr Balaguer who dominated the country's politics for 30 years before being forced into retirement by electoral reforms.

Football

Euro 96 Final. Wembley Stadium.

Motor racing

French grand prix, Magny Cours.

Public holiday

Sri Lanka.

Compiled by Simon Strong.
Fax: (+44) (0)171 873 3194.

ECONOMIC DIARY

Other economic news

Monday: German consumer price data this week are expected to show inflation fell in June, which may raise expectations of a cut in short-term interest rates.

Tuesday: Finnish GDP growth is expected to have slowed sharply in the first quarter of the year. US home sales are expected to point to continued strength in the housing market.

Wednesday: US durable goods orders are forecast to have rebounded last month after declining in April. Spanish GDP growth is expected to have slowed in the first quarter of 1996.

Thursday: The meeting of G7 heads of government begins in Lyon, France. Japanese industrial production is forecast to have grown last month but retail sales are expected to have fallen. Economists expect the UK's visible trade gap to have widened in April.

Friday: The UK's current account is expected to have improved slightly in the first quarter, thanks to a rise in the invisibles surplus. UK first quarter GDP data are expected to show no change from earlier estimates. The Japanese unemployment rate is forecast to have fallen slightly last month.

Statistics to be released this week

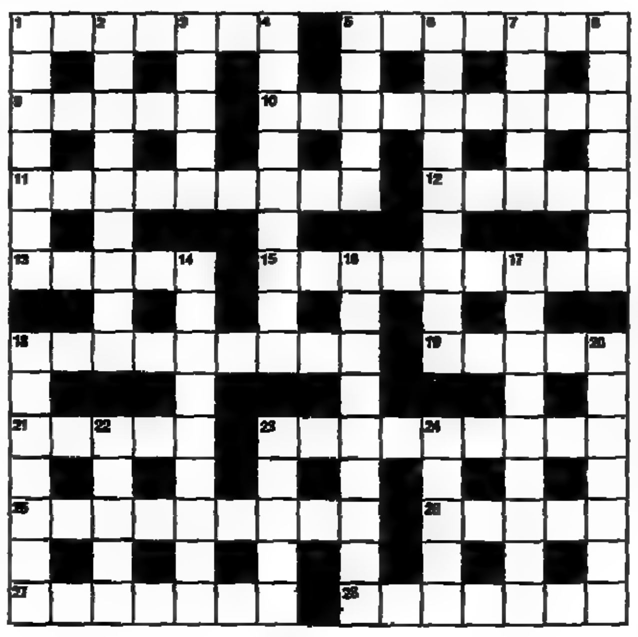
Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Monday	Germany	Jun Hesse cost of living*	-	0.2%
June 24	Germany	Jun Hesse cost of living**	-	1.2%
	Germany	Jun Baden Wuertt cost of living*	-	0.1%
	Germany	Jun Baden Wuertt cost of living**	-	1.3%
Tuesday	US	Mitsubishi index	-	Unch
June 25	US	Jun consumer confidence	102.0	101.2
	US	May existing home sales	-	4.22m
	Japan	Apr coincident index	25.0%	40.0%
	Japan	Apr leading differential index	55.6%	45.5%
	France	May consumer price index final*	0.2%	0.2%
	France	May consumer price index final**	2.4%	2.4%
	France	May household consumption†*	-0.2%	-1.4%
Wed	US	May durable orders	1.1%	-1.9%
June 26	US	May durable shipments	-	1.9%
	France	Apr trade balance†	FFr10.2bn	FFr12.1bn
	Canada	May ind prod price index*	-	-0.1%
	Canada	May raw materials price index	-	3.0%
Thurs	US	M1 (week ended June 17)	$3.0bn	-$9.9bn
June 27	US	M2 (week ended June 17)	$3.0bn	$4.6bn
	US	M3 (week ended June 17)	$5.9bn	$3.7bn
	Japan	May retail sales**	-0.3%	-1.1%
	Japan	May industrial production†	2.6%	3.2%
	Japan	May shipments†	-	2.7%
	UK	Apr global visible trade	-£1.1bn	-£0.9bn
	UK	May ex-EC visible trade	-£0.8bn	-£0.8bn
Thurs	Italy	Apr unemployment rate	12.0%	12.1%
June 27	Spain	Apr industrial production**	4.1%	-6.6%
Fri	US	1st quarter GDP final	2.3%	2.3%
Jun 28	US	Jun Chicago NAPM†	-	53.0%
	US	Jun Michigan sentiment final	-	93.8
	US	Jun agriculture prices	-	3.7%
	Japan	May unemployment rate	3.3%	3.4%
	Japan	Jun consumer price index Tokyo**	0.3%	0.2%
	Japan	May construction orders**	-	1.5%
	Japan	May housing starts**	10.7%	12.3%
	UK	1st qtr GDP (final), qtr on qtr	0.4%	0.4%
	UK	1st qtr GDP (final)**	2.0%	2.0%
	UK	1st qtr current account	-£2.0bn	-£1.8bn
During the week...				
	Japan	May dept store sales**	-	1.7%
	Japan	May supermarket sales**	-	-1.1%
	Germany	Jun N Rhine W'phal cost of living*	-	0.3%
	Germany	Jun N Rhine W'phal cost of living**	-	1.6%
	Germany	Jun Bavaria cost of living*	-	0.1%
	Germany	Jun Bavaria cost of living**	-	1.3%
	Germany	Jun prel cost of living, west*	0.2%	0.3%
	Germany	Jun prel cost of living, west**	1.3%	1.5%
	Germany	May import prices*	0.2%	0.3%
	Germany	May import prices**	1.0%	0.8%

*month on month, **year on year, †seasonally adjusted. Statistics, courtesy MMS International.

MONDAY PRIZE CROSSWORD
No.9,102 Set by DANTE

ACROSS
1 Extra helpings or extras helping (7)
5 Divisions of the church (7)
9 About to break the law, by gum (5)
10 Unrivalled type of fruit (9)
11 He is not still in business (9)
12 The last word in pictures (5)
13 Single issue of new coins (5)
15 Office that gives teachers a cheerful start (9)
18 New or ancient vessel (9)
19 Fed up, but tried anew (5)
21 You're entitled to it, but it's not left to you (5)
23 They try to avoid anything in the line of duty (9)
25 Start moving to Nigeria (9)
26 He finds seats for us beside the woman (5)
27 This leg break shows quickness of the hand (7)
28 It's shown by a person who's retiring (7)

DOWN
1 Unorthodox priests who may get up to mischief (7)
2 Arrest in case is not ordered (9)
3 This will do for the present (5)
4 Card one has not turned over (9)
5 A Spaniard of Norse extraction (5)
6 Precipitate way the staff leave school assembly? (9)
7 Strictly speaking, the tail of a dog (5)
8 Disposes of at a higher price (5,2)
14 The shortsighted could plainly see it was dangerous (4,5)
16 Other people find their activities very painful (9)
17 Work of a forger, bent but possibly lucky (9)
18 Young lad among the transport containers (7)
20 Abandons wastelands (7)
22 A leading publication? (5)
23 Not much of a way to hold Billy (5)
24 Posh number in a jolly setting look flashy (5)



A prize of a Pelikan New Classic 380 fountain pen for the first correct solution opened and five runner-up prizes of £35 Pelikan vouchers will be awarded. Solutions by Thursday July 4, marked Monday Crossword 9,102 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday July 8. Please allow 28 days for delivery of prizes.

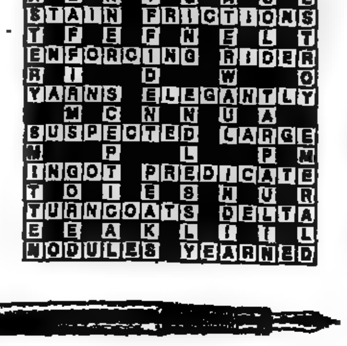
Name__________

Address__________

Winners 9,090

M. Thomas, Bath
Mrs Jessie L. Hanscomb, London W8
Jon Cray, Moseley, Birmingham
T.R. Hall, Hindhead, Surrey
Brian Candy, Maidenhead, Berks
M.O. Newman, Camberley, Surrey

Solution 9,090



JOTTER PAD

BUSINESS EDUCATION

Kingfisher is working with an Oxford college to develop graduate training, says **Della Bradshaw**

Fusion of mind and mammon

Shopping may be a favourite leisure activity, but when it comes to choosing a career, the retail industry is rarely at the top of a graduate's shopping list.

In order to attract the brightest and the best, Kingfisher, the retail group which includes Woolworths, B&Q and Comet, has developed a management training programme in conjunction with Templeton College, Oxford. As well as projects within Kingfisher, employees on the two-year programme have four, one-week courses at Templeton, working towards a Diploma in Management.

Kingfisher is hoping that an Oxford diploma will lure gifted graduates. "There is no doubt about it, the intellectually able, those who want to go on in management, look for the very best in development," says Linda Dawson, group management development manager at Kingfisher. "Oxford is synonymous with that."

For many of the 29 students, now half-way through the first course, the scheme played an important part in helping them decide to join Kingfisher. But it was the fusion of the academic with the practical, not just the diploma, that was the attraction for Anna Peachey, marketing co-ordinator at B&Q, the hardware superstore chain. "It is very much the mix that is benefiting us," she says.

Newly appointed managers at the Kingfisher retail chain don caps and gowns to sign up for a diploma course at Oxford

Alongside the academic study Peachey is completing an eight-month project determined by her boss to improve the sales conversion rate at certain of the stores. "There are very high expectations," she says. "The project is expected to have a dramatic effect on the company."

A further attraction for the graduates is that they can move round various departments within their operating company. All work in retail, buying, marketing and one support job. "One of the beauties of the scheme is that you can try out several functions," says Clare Annamalai, assistant buyer at Superdrug. "The Templeton course also gives you some insight into other areas."

For Kingfisher, one of the biggest retailing groups in Europe with 78,000 employees, the plan is to train managers for the group as a whole. "The main purpose is to try to give us the chance of growing our own senior management over a 10-year horizon," says Tony Ward, director of human resources at Kingfisher. Previously only two Kingfisher companies had a graduate recruitment policy supported by structured training.

Kingfisher's decision to opt for Templeton was based on the college's expertise in retail management and its flexibility to fit in with the Kingfisher business. The group has a "golden quarter" – a large rush of business in the few months leading up to Christmas.

But perhaps the overriding factor was what Dawson calls the need for "intellectual rigour". Gerd Islei, fellow in information management at Templeton, stresses that the college is "a bit unbending about the standards we are setting. Management trainees really have to sit an Oxford University exam in four different subjects."

For Templeton, the Kingfisher scheme is the first step in what could be a range of diploma courses developed by the college for individual businesses, following the basic structure but adding the expertise of each company. In the long term Islei believes the diploma could become the first part of an executive master of business administration course, with the qualification counting, for example, towards a third of the work.

Because the diploma course was developed by Templeton for "recycling" in this way, the costs to Kingfisher have been relatively low. But there are other expenses.

"Where the real cost is, is not in the cheque I sign but in the input from the business," says Dawson. Kingfisher directors meet regularly with Templeton academics to steer the course and to lecture.

"They've put a lot of faith in us," says Paul Docherty, distribution development analyst at Entertainment UK, Kingfisher's music distribution business, and a scheme member. "It allows you to go on and work with that confidence. It's very productive."

NEWS FROM CAMPUS

Where there's a yen there's a way

Companies who do business in Japan are invited by the European Commission to apply for grants to send employees to train there for 18 months. The grants are available for the first successful applicant from each company, and small companies are particularly encouraged to apply.

Each grant of Ecu 110,000 (£92,000) is intended to cover the cost of living and working in Japan, where the successful candidates will have intensive language courses and will work in Japanese companies.

The deadline for applicants is July 31. The scheme is administered in the UK by PA Consulting.

PA: UK, (0)171 730 9000

British managers increase productivity

An increasing number of British companies are adopting strategies for management development and are reaping increased productivity as a result.

Of the 1,000 companies surveyed, 82 per cent felt their company was more competitive than last year, according to the report *Management Development in the UK 1996*, commissioned by the Management Charter Initiative. Seventy-six per cent of companies stated that the priority given to management development has increased over the past five years.

MCI: UK, (0)171 872 9000.

Dutch trophy cupboard fills up

For the second time this year a team of students from the Erasmus graduate school at Rotterdam School of Management has taken the top honours in a business school competition.

The team of four beat seven other teams of MBA students in the European business plan competition held at Insead earlier this month. In April an Erasmus team won the case competition in Barcelona.

The business plan competition has been running since 1993 and is intended to encourage entrepreneurial spirit and new business ventures. Their MBAs finished, the Erasmus team plans to start up the company.

Erasmus: Netherlands, (0)10 4082222.

BUSINESS EDUCATION

CONFERENCES & EXHIBITIONS

JUNE 25-29
Jordan Exhibition
Offers a range of new business opportunities from chemicals and raw materials to clothes and textiles, from food and beverages to furniture. Daily 10am - 6pm (except 25th June 12 noon-6pm) at the Arab - British Chamber of Commerce, 6 Belgrave Square, London SW1X 8PH. For details call PR Dept.
Tel. 0171 235 4363 Fax: 0171 396 4499
LONDON

JUNE 26-27
Developing your Company's Human Capital
How to develop individual knowledge and skills to strengthen key business competencies - explores the latest thinking on how to create the right environment, management structures, rewards and performance measures to produce high-performing employees.
Contact: Business Intelligence
Tel. 0181 543 6565 Fax: 0181 544 9020
LONDON

JULY 1-3
British Chamber of Commerce National Conference
A dynamic line up of UK business leaders and politicians will debate Britain's global competitiveness at the British Chambers of Commerce National Conference. The event will also feature a business exhibition and runs from 1-3 July at Birmingham's International Convention Centre.
Contact: Brenda Sharp, Conference Manager
Tel: 0121 454 1999 Fax: 0121 693 9000
BIRMINGHAM

JULY 1-3
International Securities Settlements
This course is designed for those wishing to gain an understanding of the concepts of ISS settlement practices in general & individual markets in particular. ● Introduction to Securities; ● The Investment Cycle; ● Risk; ● Industry Initiatives. ● The Pre- & Settlement Processes; ● Corporate Actions; ● Reconciliations; ● Investment Accounting. ● Bonds - Domestic & International; ● Equities; ● Equity Linked Securities; ● Derivatives; ● Global Custody.
£550+ VAT 3 days.
Contact: TFL/Nicola Blackman
Tel 0171 606 0084/600 2123
Fax. 0171 600 3751
LONDON

JULY 2-3
The Intranet: Transforming Enterprise Information Management
Companies are increasingly using Intranet technology for their own internal use allowing employees to share information and collaborate on projects. This major conference explores the issues related to the design, implementation and management of these intranets.
Contact: Business Intelligence
Tel: 0181 543 6565 Fax: 0181 544 9020
LONDON

JULY 3&4
Documentary Credits
This course is designed for Credit Departments of Banks, Importing/Exporting and Shipping Companies. The course includes: Overview of Trade Operations ● Shipping Documents; ● INCOTERMS; ● Documentary Credits; ● Dealing with Discrepancies; ● Special Types of Credits; ● Financing Trade. Case Studies included.
£520+ VAT 2 days.
Contact: TFL/Nicola Blackman
Tel: 0171 606 0084/600 2123
Fax: 0171 600 3751
LONDON

JULY 8
Polish Capital Markets & Investment Conference
A major one day conference covering the equity, debt and fx markets, and investment and privatisation opportunities in the telecoms, energy, and oil and gas sectors. Speakers will include representatives from the Polish Government and Securities Commission. The conference will include investment workshops and company presentations including KGHM Polska Miedz.
Contact: Anelle Savona, Dow Jones Telerate
Tel: +44 (0) 171 832 9737
Fax: +44 (0) 171 353 2791
LONDON

JULY 9 - 10
The Supply Chain Experience · Conference & Exhibition
Two day conference addressing all aspects of the supply chain. Top flight speakers will address subjects including · government procurement strategy, IT, environment auditing, the relevance of ISO 9000 and standards generally, outsourcing, logistics, economic policy, partnerships & negotiation and diversity.
Contact: Virginia Moran - Chartered Institute of Purchasing & Supply
Tel: 0500 071996 (Freephone)
Fax. 01780 51610
BIRMINGHAM

JULY 10
South Africa:
The Opportunities for Business
One day investment conference. Keynote speaker President Nelson Mandela. Details. Kevin Clark, CBI Conferences
Tel. 0171 379 7400
LONDON

JULY 12
Managing Your Time
There are never enough hours in the day. How to manage time effectively and prioritise your workload. ● Analysing Responsibilities, Setting Objectives, Action Planning, Time Management; ● Effective Use of Telephone/Technology; ● Running Teams, Delegation, Meetings.
1 Day £220.
Contact: Fairplace
Tel. 0171 623 9111 Fax: 0171 623 9112
LONDON

JULY 25-26
Mergers, Acquisitions and Company Valuations
Company Valuation is the backbone of corporate finance and often a key factor in lending decisions. This comprehensive course is ideal for corporate financiers, merchant bankers, accountants and venture capitalists. ● Value, Risks and Returns; ● Valuing Companies/Investments; ● Leveraged Buy-Outs; ● Emerging Markets. 2 Days £595.
Contact: Fairplace
Tel: 0171 623 9111 Fax: 0171 623 9112
LONDON

SEPTEMBER 10-11
Intranets and Network Computers: Shaping the enterprise IT infrastructure
The Intranet - the internal internet - is the hottest issue in IT today. In combination with Groupware and NCs, it offers organisations collaboration sharing and productive use of information and knowledge. JSB, Apple, Oracle, Netscape, Sun, Microsoft, IBM, HP, Lotus present their products, services and strategies: Barclays and BUPA present case studies.
Tel: 01895 256484 Fax: 01895 813095
E-mail: nims@unicom.co.uk
LONDON

SEPTEMBER 12-13
Groupware and the Web
Byte calls its the Group War! Find out what is on offer. JSB, Lotus, Microsoft, ICL discuss product strategies: SBC-Warberg, AT&T present case studies. This UNICOM business seminar discusses how Groupware and the Web relate to each other and explains the business benefits to the organisation.
Tel: 01895 256484 Fax: 01895 813095
E-mail: nims@unicom.co.uk
LONDON

SEPTEMBER 19
Exotic Currencies of Eastern Europe
Major international conference looking at opportunities and risks involved in trading exotic currencies of Eastern Europe - including Poland, Czech Republic, Russia & Hungary. Presentations from leading market players including: Citibank; Merrill Lynch; HSBC, EBRD; Bank Handlowy W Warszawie SA., West Merchant Bank, The London School of Economics, CS First Boston.
Contact: Anelle Savona, Dow Jones Telerate
Tel: +44 (0)171 832 9737
Fax: +44 (0)171 353 2791
LONDON

SEPTEMBER 26 & 27
FT WORLD MOBILE Communications - Strategies for the Wireless Millennium
The challenges of valuing and financing mobile operations; Industry progress towards the consumer market; the market for converging technologies; and market positioning for new entrants will be discussed and debated by key industry speakers: Hans Snook of Orange, Fransisco Caio of Omnitel, Richard Goswell, Mercury One-2-One and Fabio Leite of ITU and Mr Patrick LeuLeu of Bouygues Telecom.
Enquiries: FT Conferences
Tel: 0171 896 2626
Fax: 0171 896 2696
LONDON

OCTOBER 30 & 31
FT European Life Insurance - Strategies for Success in a Fast-Changing World
Speakers will include: Sir Andrew Large, Chairman, The Securities and Investments Board; Mr Stephen E White, Chairman and Chief Executive Officer, MetLife International Holdings, Inc; Mr Manfred Lautenschlager, Chief Executive, MLP AG; Mr Iain Lumsden, Group Finance Director, The Standard Life Assurance Company; Mr John Denham, MP, Shadow Minister for Pensions; and Professor Steve Jones, Professor of Genetics, UCL.
Enquiries: FT Conferences
Tel: 0171 896 2626 Fax: 0171 896 2696
LONDON

INTERNATIONAL

JULY 9-12
Seminar: New Trade & Investment Opportunities in Tunisia
EU-Tunisia Free Trade Agreement offers new opportunities for UK in trade, investment, and access to EU aid funds. Unique chance to meet Tunisian Minister, companies and EU aid Director. No delegation fee. Travel package.
Contact:
Arab-British Chamber of Commerce.
Tel: 0171 235 4363 Fax: 0171 396 4499
Occidental Hammamet Hotel TUNISIA

OCTOBER 13-15
Business Analysis: The European Dimension
A gathering of competitive intelligence professionals. Sponsored by SCIP & SCIP Europe. Keynote presenters are: General Sir Peter de la Billiere & Max Downham.
● 18 presentations by industry experts;
● Exhibit hall with over 25 vendors;
● Half-day intensive workshops.
Contact: SCIP at +1 703-739-0696
E-mail: scip@dc.infi.net
www:http//www.scip.org
Vienna, AUSTRIA

LANGUAGE COURSES

هكذا من الاصل

SPORT / ARCHITECTURE

Injured athletes declare a field day for litigation

Keith Wheatley finds that officials, not competitors, are targets as sports authorities look nervously at their exposure to lawsuits

Who would want to be an athletics official in charge of a javelin competition? I'd been mulling over some of the radical changes in the level of legal responsibilities event organisers must shoulder when a new world record caught my eye. A week or two ago Czech soldier Jan Zelezny extended his own existing standard by nearly three metres with a Herculean throw of 98.48m. It doesn't take much imagination to envisage a "kebabed" spectator at some future athletics meeting – and the legal furore that would follow.

When former champion Uwe Hohn threw 104.80m some 12 years ago, the javelin's specifications had to be changed to keep it within the confines of the arena. Right across the sporting spectrum authorities are looking nervously at their potential exposure to litigation. In a week's time the British Athletic's Federation will go to court and attempt to block runner Diane Modahl's claim for £750,000 in damages and compensation over her wrongful drugs ban.

Modahl's career and reputation has undoubtedly been grievously damaged. But for the BAF the issue could literally be life and death. The federation reported a thumping financial loss earlier this year and a successful six-figure claim could push it into bankruptcy.

Last year, I presented a BBC Radio 5 documentary on sport and the law. Much of our material concerned the likelihood of competitors suing other competitors over injuries inflicted by contact that went beyond the rules of the particular game. Our perception was flawed. Officials, not players, are the current targets for the litigious.

"The whole focus is shifting onwards very quickly from competitors suing one another," said Julia Bracewell, a barrister, former Olympic fencer and member of Britain's influential Sports Council. "The whole field of sports litigation is increasing and that means more defendants. Who are they going to be? It has to be the authorities, referees and other officials because they are more likely to have insurance coverage than individual players. Plaintiffs, in the end, are looking for the money."

The doctrine can have some curious consequences. When the Victorian poet Sir Henry Newbolt wrote of his schoolboy cricketers' plucky battle with a "bumping pitch and a blinding light", he can scarcely have been worrying about the potential civil liability of the umpires. Yet their late twentieth-century descendants are alarmed. The men in white coats have a trade magazine, *How's That*, and much of the current issue is devoted to the question of an umpire's legal liabilities should he fail to stop play as soon as the light becomes poor. It is all well and good for a Test Match umpire with the winking lights of modern technology to make his decision for him. But a batsman felled by a beamer is just as dead if he falls at the crease of the Bogshire county ground with the umpire squinting into the murk and relying on the Mark I eyeball.

The Umpires Association has obtained counsel's opinion that the English common law overrides any provision of the laws of cricket. Umpires should unilaterally suspend play when they think there is a "real potential danger". Is that a lower standard of risk than the Test and County Cricket Board's regulation that "umpires will suspend play for bad light *only* [my itals] when they consider there is a risk of serious injury"?

Clearly Dickie Bird and his heirs will have some tough calls to make during an average English summer. The landmark case in this area came earlier this year in the British civil courts. A young man named Ben Smoldon had been paralysed when a scrum collapsed during a game of schoolboy rugby in 1991. Smoldon won a case in negligence against the referee, claiming that he had not controlled the game with an eye to safety.

In the European courts the partner and six-year-old daughter of former Austrian ski champion Ulrike Maier won £300,000 in compensation from two ski officials after her death in a downhill race. The officials were found to have misplaced the timing post that Maier hit on her 65mph run to the finish. A judge warned the pair that they could have faced five-year prison terms. It does beg the question of what sort of damages could have been involved if Miss Maier had ploughed into the crowd on her fatal run and killed or maimed half a dozen spectators. In the past, they would have been told it was a risky place to watch a dangerous sport. In 1951 a small child watching an ice hockey game in London with his parents received the puck full in the face. His claim for damages was thrown out by the court. At about the same time, a plaintiff hit on the head by a cricket ball whilst walking past the local county ground (there is no record of how good the light was at the time) was told he should have chosen a less hazardous route for his stroll.

Some of these thoughts came to mind recently whilst watching the Monaco grand prix. At one point a crashed Formula One car was being lifted off the track and swung just a few metres over the heads of the nearby crowd. Even by the standards of Monaco, a street circuit that is regarded as the most hazardous of all race tracks, it was a potentially lethal manoeuvre. Fuel could have spilled into the crowd, a gearbox dropped into someone's lap. How would the Federation International de Autosport have defended itself, I wonder? "In the past we used to put a sign up saying *Motor Racing is Dangerous* but that won't do now," says FIA president and barrister Max Mosely. "These days it's all a bonus for the insurance industry. And ultimately the participants and the spectators will have to bear these new costs."

Risky business: Jan Zelezny of the Czech Republic takes the gold at the Ullevi stadium in Gothenburg, Sweden

Time to restore a giant river palace

A gift of gold and silver may unlock the splendours of Somerset House, writes Colin Amery

Just as King George III was saying farewell to his American colonies, his former architecture tutor Sir William Chambers was starting work on the building of Somerset House by the Thames.

The work began in 1776 on what was the first complex of purpose-built government offices in the world. It also housed the premises of the Royal Academy, the Royal Society and the Society of Antiquaries. This combination of arts and government in a single building made it a unique place in any capital city.

Chambers, who was born in Sweden in 1723, was the great rival of Robert Adam but his style is more of a mixture of French neo-classicism and English Palladianism. He was also an author and informed polemicist and at Somerset House he was able to incorporate much of the theory of his Treatise on Civil Architecture into his last masterpiece.

Today we can hardly see the river facade because of the streams of traffic on the embankment and the tall London plane trees that mask the proportions of the design. The facade is 800ft long – clearly designed as a rival to the Adam brothers' Adelphi just downstream. It was a giant river palace – old engravings show it with its huge and powerful rusticated arches standing almost in the tidal waters of the Thames. Its other great feature is the wonderful internal courtyard approached through a triple gateway from The Strand. The vast space, more than 300ft by 350ft is currently a car park for civil servants.

Until the Courtauld Institute galleries moved their magnificent collections into the Strand block at the start of this decade, Somerset House remained entirely government offices. The Inland Revenue and the Lord Chancellor's department are still there but an amazing gift to the nation has encouraged the government to agree to give up the riverside south block as a home for the Rosalinde and Arthur Gilbert Collection of silver, gold and micro-mosaics.

This extraordinary collection is a treasury of priceless objects assembled by Gilbert who left England 47 years ago to make his fortune in the Los Angeles property market. It is valued at £75m and Gilbert is anxious to see it housed in his native country.

The gift is the key to the unlocking of the still hidden architectural splendours of Somerset House. Lord Rothschild, the chairman of the National Lottery Heritage Fund, has been instrumental in securing this gift and he imaginatively proposed that it should be housed in the terrace rooms with their Piranesian vaults on the south side of the great courtyard.

The fund is offering £15.5m for the installation of the collection. This means that the river side buildings will, for the first time, be fully open to the public from 1999.

The catalytic potential of this superb gift could be remarkable. First of all it will allow the riverside building and the great terrace to be open to the public.

Without cars and restored to its original cobbled appearance, the great courtyard would be a space of civic grandeur – leading naturally to the terrace and the river. It could become the Saint Mark's Square of London – a grand outdoor room.

But perhaps the most important aspect of this recovery of a great work of architecture, timed to coincide with the two hundredth anniversary of the death of Chambers, is the potential for the river. The great terrace could house shops and restaurants and an outlook onto the Thames. Perhaps the western block when it is freed from the civil servants could become an hotel to ensure life and activity night and day.

It is vital, now that the government has demonstrated its commitment, that the remaining civil servants leave to allow access to the great navy staircase, and the board rooms that would make additional galleries for the Courtauld's substantial reserve collections.

It is vital also to ensure that everything that is done to recover the building is done to the highest standard.

That should not rule out new elements where they may be necessary. In Italy, Germany and France, historic buildings – even of this stature – are helped to change their function by appropriate well designed alterations. It ought to be possible to bring life and some commercial use along the terrace and even in the courtyard.

We should be grateful to Gilbert, not only for showering us with silver and gold, but for enabling the continuing recovery of this great work of architecture to be launched so splendidly.

THE WEEK AHEAD

DIVIDEND & INTEREST PAYMENTS

■ **TODAY**
Abbey National Treasury 7¾% Gtd Nts 1998 £77.50
All Nippon Airways 4½% Nts 1998 Y450000.0
Ann Street Brewery Rd 2nd Pf 32p
BP America 9½% Gtd Bd 2002 C$95.0
Barclays Bank Fltg Rate Snr Bd 2001 £35042.89
Boots 10⅛% Bd 2017 £2531.25
Bristol & West Bldg SCty 10¾% Sb Bd 2018 £107.50
Cheltenham & Gloucester 7⅛% Nts 1998 £78.75
Comm Loans on Inv Prop (No 1) Comm Mtg Bckd FRN 2009 Class A £142.88
Do Class M1 £185.56
Do Class M2 £190.70
Do Class B £266.48
Essex Furniture 2.1p
F & C German Inv Tst 0.75p
Finland (Rep of) 10⅛% Bd 2008 £101.25
Furukawa Elec FRN Mar 1998 Y22907.0
Do FRN Jun 1998 Y22907.0
HSBC Americas FRN 2009 $146.88
IAWS IR1.392p
Jets Int Ser F Secd FRN 1997 Y224393.0
Manchester 3% Rd Cons £0.75
Do 4% Cons Irrd £2.0
Metrolpolitan Water Kent Water Works 3% Db £1.50
Radiotrust 0.6p
Sage 0.88p
Spintab 7½% Bd 1997 $750.0
Standard Chartered Und Prim Cap FRN £81.06
Sumitomo Realty 4.2% Nts 1997 Y420000.0
Do 4½% Nts 1998 Y450000.0
Do 4.8% Nts 2000 Y480000.0
Tokyo Tatemono 5% Bd 2000 Y500000.0
Do 5.2% Bd 2003 Y520000.0
Toyo Ink Mfg 5.05% Bd 2000 Y505000.0

■ **TOMORROW**
Fuji Bank Int Fin Und Sb Gtd Var Rate Nts Y29549.0
Hecules $0.23
Jupiter European Inv Tst 0.7p
Lydenburg Platinum R1.34
NT & T 7¼% Nts 1998 C$72.50
Sabre Int (No 2) Ser P Sec Var Rate Nts 1998 Y22441.0
Stanley Elec 6.3% Bd 1997 Y630000.0
Do 6.4% Bd 1999 Y640000.0
State Bank of New South Wales 10% Nts 1997 NZ$100.0
Sumitomo Realty 6% Nts 1996 Y600000.0
Do 6% Nts 1997 Y600000.0
3i Smaller Quoted Co's Tst 0.77p
UB Invs 6½% Bd 1996 $65.0

■ **WEDNESDAY JUNE 26**
Abtrust New Thai Inv Tst 2p
Asahi Chemical Ind 7.2% Bd 1998 Y720000.0
Electricite de France 10½% Gtd Bd 2009 £1050.0
Halliburton $0.25
Independent Newspapers IR6.5p
Kingspan IR2.3p
Nihon Doro Kodan 8⅝% Gtd Bd 2001 $431.25
Pokphand (CP) (Bermuda) $0.00897
Do (Hong Kong) HK$0.07
Do (UK) $0.00897
Suter 6.1p

■ **THURSDAY JUNE 27**
Aircraft Lease Portfolio Class A2 FRN 1997 $323.03
Antofagasta 4.5p
Asahi Bank £3.50
Autobacs Seven Y14.50
Bank fur Arbeit und Wirtschaft Sb FRN 1999 $292.29
British & American Inv Tst 1.5p
British Gas 8¾% Bd 2028 £87.50
Elf Enterprise Fin 8¾% Gtd Exch Bd 2006 £218.75
English National Inv 0.38p
English & O'seas Properties 0.6p
Euromoney Publications 14p
First Private Fin No 1 Mezanine Asset-Bckd FRN 2021 £1979.51
Do Snr Asset-Bckd FRN 2021 £1249.26
Fleming O'seas Inv Tst 3.1p
Fortis BFr112.0
Fujitsu Y5.0
Grampian TV 4.15p
Halifax Bldg Scty Sb Var Rate Nts £164.02
Hemlo Gold Mines C$0.10
Honda Motor Y7.0
Italy (Rep of) FRN 2000 $282.76
Kajima Y4.50
Marine Midland Bank Sb FRN 1996 $142.15
Midland Bank Und Prim Cap FRN (Jun 1985) $295.47
Midlands Elec 20p
NEC Y6.0
Newmarket Venture Capital 8p
Sanwa Bank Y2.75
Skipton Bldg Scty Sb FRN 2000 £36343.75
Stars 1 Class A Fltg Rate Mtg Bckd Sec 2029 £115.40
TDK Y30.0
Tokai Bank Y2.25
Tokyo Tatemono 7% Bd 1997 Y700000.0

■ **FRIDAY JUNE 28**
Abbey National Treasury Gtd Capped FRN 1996 £165.17
Acres (No 1) Class A Mtg Bckd FRN 2005 £116.75
Do Class M2 £184.61
Alex & Alex $0.025
Do Class C 0.0165p
Alexanders 9½% Pf 3.325p
Alexandra Workwear 4p
Anglo American Coal R7.0
Anglo Fin No 1 Mezzanine FRN 2001 £1534.97
Do Sner Sec FRN 2001 £344.11
Do No 2 Mezzanine Sec FRN 2004 £1591.03
Do Snr Sec FRN 2004 £532.76
Avon Rubber 4.9% Pf 2.45p
BCP Cap Fin Ser A Fltg Rate Gtd N/Vtg Pf $0.52
Bardon 3.85% Pf 1.925p
Do Cm Pf 2005 5.625p
Black & Decker $0.12
Bridon 10¼% Db 1991/96 £5.125
Do 6⅝% Un Ln 2002/07 £3.3125
Do 7¾% Un Ln 2002/07 £3.875
Britannia Bldg Scty FRN 1997 £157.47
Do Sb FRN 2006 £1890.13
Britannic Assurance 5% Tax-Free Pf 2.5p
Charnos 7% Pf 2.45p
Chelsea Bldg Scty Sb FRN 1999 £35642.12
City of Oxford Inv Tst Inc 1.7p
Clydeport Operations 3% Irrd £1.50
Do 4% Irrd £2.0
Collateralised Mortgage (No 8) Mtg Bckd FRN 2028 £90.21
Do (No 9) Class A3 FRN 2033 £39.18
Do (No 11) Class A FRN 2028 £82.91
Commonwealth Bank of Australia 10 Yr Gtd Ext FRN $286.51
Dunyst Inv Tst Cv Mnthly Div 0.49p
EMAP 5% Cm Pf 1.75p
Emess Cv Rd Pf 3.125p
Engelhard $0.09
F & C Inc Growth Inv Tst 1.15p
Fortnum & Mason 86p
Fujita FRN 1997 Y288325.0
Fulcrum Inv Tst 4.8p
GR 10½% 2nd Pf 5.25p
Gaskell 5% Cm Pf 1.75p
Gleeson (MJ) 3.75p
Grampian 7% Cm Pf 2.45p
Great Universal Stores 5⅜% Rd Un Ln £2.6875
Do 6⅜% Rd Un Ln £3.1875
Guardian Media 4% Pf 1.4p
Guinness Flight Extra Inc Tst 1.75p
Do Units 1.75p
Hampden 1.5p
Higgs & Hill 7% Pf 2.45p
Homer Fin (No 3) Class A1 Mtg Bckd FRN 2036 £42.90
Do Class A2 £157.26
Do Class A3 £180.37
Do Mezzanine £174.67
Hunting 4.2% Pf 2.1p
Italy (Rep of) FRN 1998 $71.88
Jardine European Motors Ser B Gtd FRN 2000 £26.80
Jersey Phoenix Tst 1.5p
Johnson Fry Fin 7% Sec Ln 2000 A £3.50
Do B £3.50
Do D £4.11
Kayser Bondor 6% Cm Pf 2.1p
Lex Service 6½% Cm Pf 2.275p
Martin Currie Pacific Tst 0.9p
Morgan Grenfell Equity Inc Tst 2.2p
Morgan Grenfell Latin American Co's Tst 0.26p
NHL (3) Class A1 Dfd Int Mtg Bckd FRN 2036 £13.72
Do Class A2 £160.37
Do Mezzanine £174.67
NT & T Y2500.0
Narborough Plantations 0.,5p
Do 20% Pf 1p
NationsBank $0.58
Northern Telecom $0.13
Northern Venture Tst 0.75p
Overseas Inv Tst 0.95p
Paramount 0.047p
Parma Food Inv Asset-Bckd FRN 2000 L2701563.0
Regby Gtd FRN Oct 1997 $4384.72
Residential Property Sec No 3 Class A1 Mtg Bckd FRN 2025 £74.86
Do Class A2 £1577.58
Do Class B £1883.67
Royal Bank of Canada Fltg Rate Db 2005 £42.77
Royal Bank of Scotland Ser A Non-Cm Pf $0.703125
Do Ser B $0.70
Do Ser C $0.59375
Saracen Value Tst 0.6p
Schroder Split Fd 2p
Scottish Eastern Inv 4½% Cm Pf £1.575
Seagram $0.15
Shires Smaller Co's 1.325p
Jefferson Smurfit IR2.6p
Do 6% Gross Pf IR2.5486p
Specialty Shops 1.6p
Sumitomo 5¾% Bd 1999 $57500.0
SwedBank Sb FRN 2002 $341.88
TMC Mtg Sec No 1 FRN 2014 £15.33
Takare 11.8% 1st Mtb Db 2014 £5.90
Temple Bar Inv Tst 9⅞% Db 2017 £4.9375
Thames Asset Global Sec No 1 Class A1 Asset Bckd FRN 2037 £1552.72
Tokyo-Mitsubishi Int 9⅛% Sb Nts 2001 $9125.0
Town Centre Sec 1.05p
UK FRN 1998 $132.71
Wells Fargo Sb FRN 2000 $43.26
Wolverhampton & Dudley Breweries 8p
Do 6% Cm Ptg Pf 2.1p
Woolwich Bldg Scty FRN 1997 £156.95
Yasuda Tst Asia Pacific Fxd/Fxd rate Gtd A Bd 2004 $3064.93
Do B $3115.49

■ **SATURDAY JUNE 29**
Capital & Regional Properties 6¾% Cv Sb Un Ln 2006/16 £0.9432
Scottish National Tst 6% Cm Pf 2.1p

■ **SUNDAY JUNE 30**
Allied London Properties 10¾% 1st Mtg Db 2025 £5.375
Anglo & O'seas Tst 8½% Db 2020 £4.25
Antofagasta 5% Cm Pf 2.5p
Asda Property 5⅛% Cv Rd Pf 2012 2.5625p
Do 9⅛% 1st Mtg Db 2020 £5.575
BOC 4.55% Cm Pf 2.275p
Do 2.8% Cm 2nd Pf 1.4p
Do 3½% Cm 2nd Pf 1.75p
Bampton 8¼% Un Ln 2002/07 £4.125
Baring Tribune Inv Tst 9⅛% Db 2012 £4.5625
Braime (TF & JH) 5% Cm Pf 2.5p
Bristol Water 3½% Perp Db £1.75
Do 4% Perp Db £2.0
Do 4¼% Perp Db £2.125
Do 9.8% Rd Db 1996 £4.90
British Fittings 5½% Cv pf 2.75p
British Guiana Demerara Rlwy 4% Perp £2.0
Do Perm Anns 50p
Briston Estate 5% Cm Pf 0.875p
Do 9½% 1st Mtg Db 2026 £4.75
Do 10¾% 1st Mtg Db 2025 £5.375
Do 11¼% 1st Mtg Db 2023 £5.625
Broadstoner 6% Cm Pf 2.1p
Brunner Inv Tst 5% Cm Pf £1.75
Burford 9⅝% 1st Mtg Db 2018 £4.8125
Cambridge Water 10% Rd Db 1996/98 £5.0
Capital & Counties 9⅞% 1st Mtg Db 2027 £4.9375
Do 11¼% 1st Mtg Db 2021 £5.625
Chartwell Int Rd Cv 8% Pf 1.5p
Chester Waterworks 11⅜% Rd Db 1998/2000 £5.6875
City Site Estates 7% Un Ln 2005/06 £3.50
Coats Patons 4½% Un Ln 2002/07 £2.25
Do 6¾% Un Ln 2002/07 £3.375
Commercial Union 8¾% Irrd Pf 4.375p
Contra-Cyclical Inv Tst 2.75p
Cookson 7% Cm Pf 2.45p
Co-operative Wholesale 7⅝% 1st Mtg Db 2018 £3.8125
Coutts Consulting 2nd Cm Cv pf 4p
Croda 5.9% Cm Pf 2.95p
Do 6.6% Cm Pf 3.3p
Dead Sea Works 5% Db 2002 NIS0.25
Debenhams 7¼% 2nd Db 1991/96 £3.625
Delta 4.2% 1st pf 2.1p
Do 3.15% Cm 2nd Pf 1.575p
Dencora 6¼% Cm Rd Pf 3.125p
Denmark (Kingdom of) 13% Ln 2005 £6.50
Derby Tst 7½% Db 1999/2003 £3.75
EIS 5% Cm Pf 1.75p
Eastbourne Water 11.2% Rd Db 2005/08 £5.60
Do 12½% Rd Db 2004 £6.25
Ecclesiastical Ins 10% 2nd Pf 5p
Do 8⅝% Non-Cm Irrd Pf 4.3125p
Electric & General Inv 10.1% Db 1997/2002 £5.05
Estates & Agency 11¼% 1st Mtg Db 2020 £5.625
Estates & General 11¼% 1st Mtg Db 2018 £5.625
Everards Brewery 5% Cm Pf 1.75p
Ex-Lands 7½% Un Ln 2020 £3.75
F & C Inv Tst 11¼% Db 2014 £5.625
Finlay (James) 4.2% Cm 1st Pf 2.1p
Do 4.2% Cm 2nd Pf 2.1p
Do 5% Cm 2nd Pf 2.5p
Fleming American Inv Tst 5% Cm Pf £1.75
Do 7% Cv Un Ln 1999 £3.50
Fleming Claverhouse Inv Tst 11% Db 2008 £5.50
Fleming Inc & Growth Inv Tst 5% Cm Pf £1.75
Fleming O'seas Inv Tst 5% Cm Pf 1.75p
Fortnum & Mason 7% Cm Pf 2.45p
Friendly Hotels 5% Cm Rd Pf 2.5p
Frogmore Estates 13.85% 1st Mtg Db 2000/03 £6.925
GATX $0.43
Glynwed Int 7¾% Cm Pf 2.7125p
Halstead (James) 5½% Cm Pf 1.925p
Hawtin 4.55% Cm Pf 2.275p
Headlam 5.6% Pf 2.8p
IMI 5½% Un Ln 2001/06 £2.75
Kilroot Elec 9½% Sec Db 2006/10 £4.75
Kleinwort O'seas Inv Tst 4% Cm Pf £2.0
Ladbroke (Jersey) 9% Cv Bd 2005 £45.0
Lazard Smaller Equities Inv Tst Cm Rd Stppd Pf 6.75p
London Park Hotels 10½% 1st Mtg Db 2000/05 £5.25
Macallan-Glenlivet 6¼% Cv Un Ln 2005 £3.125
Manganese Bronze 8¼% Cm Pf 2.8875p
Marley 11⅞% Db 2009 £5.9375
Marshalls 11⅜% Db 1992/2014 £5.6875
Merivale Moore 10½% 1st Mtg Db 2020 £5.25
Mid Kent Water 4% Perp Db £2.0
Do 5% Perp Db £2.50
Mid Southern Water 3½% Perp Db £1.75
Molyneux Fin 8¼% 1st Mtg Db 2019 £4.125
Mucklow (A & J) 7% Cm Pf 2.45p
Murray Int 4% Db £2.0
News Int 7% Cm 1st Pf 2.45p
Do 8% Cm 2nd Pf 2.8p
Newton Chambers 5% 1st Cm Pf 1.75p
North East Water 3¾% Rd Db 2012 £1.875
Do 12% Rd Db 2005 £6.0
Northern Rock Bldg Scty 12⅝% Perm Int Brg £63.125
Pascoes 7½% Cv rd Pf 3.75p
Pearson 9.3% Un Ln 1996/2001 £4.65
Pittards 9½% Cm Pf 4.75p
Plantation & General Invs 9% Cv Un Ln 1999 £4.50
Quarto Cv Rd Pf 4.375p
Queens Moat Houses 12% 1st Mtg Db 2013 £6.0
Quicks 10% Cm Pf 5p
REA 9% Cm Pf 4.5p
Do 12% Un Ln 2000 £6.0
Record 10% Cm Pf 5p
Regis Property 8¾% Gtd Un Ln 1997 £4.375
Retail 6½% Cm Pf 2.275p
Do 5¾% Cm 2nd Pf 2.0125p
River Plate & Gen Inv Tst 4% Db £2.0
Robinson Bros 11% Cm Pf 5./5p
Rolls-Royce Power Eng 3% Cm Pf 1.5p
Do 5⅜% Cm Pf 2.6875p
Do 11% Cm Pf 5.5p
Ropner 11½% Cm Pf 5.75p
Rotork 9½% Cm Pf 4.75p
Rugby 6% Un Ln 1993/98 £3.0
Do 7¾% Un Ln 1993/98 £3.875
St Andrews Tst 5¼% Cm Pf £1.8375
Schroders 8¾% Un Ln 1997/2002 £4.375
Scottish Mortgage & Tst 6-12% Stppd Int Db 2026 £6.0
Severn River Crossing 6% IL Db 2012 £3.351
Simon Eng 9¼% Db 1992/97 £4.625
Sirdar 7½% Cm Pf 2.625p
Slough Estates 11¼% 1st Mtg Db 2019 £5.625
Do 12⅜% Un Ln 2009 £6.1875
Sutcliffe Speakman 9½% Rd Pf 4.75p
TR City of London Tst 11½% Db 2014 £5.75
TR Technology Stppd Pf 3.517751p
Do Units 14.071004p
Tendring Hundred Water 4% Db £2.0
Tootal 4¾% Perp Db £2.375
Town Centre Sec 9% Cv UN Ln 1998/2000 £4.50
Do 10½% 1st Mtg Db 2021 £5.25
Trafalgar House 7% Un Db 3.5p
Do 10¼% Un Ln 2001/06 £5.125
Transport Dev 4.7% Cm Pf 2.35p
Do 8¼% Un Ln 1993/98 £4.125
UK Property 8½% Un Ln 2000/05 £4.25
Waddington (J) 4.2% Cm Pf 2.1p
Do 5.6% Cm Pf 2.8p
Watmoughs 8¼% Cm pf 2006 4.125p
West Kent Water 4% Perp Db £2.0
Widney 8.76% Cv 2nd Cm Pf 4.38p
Wilson (Connolly) 8% Cm 1st Pf 2.8p
Do 10½% Cm 2nd Pf 5.25p
Wood (Arthur) 7½% Cm Pf 2.625p
Wyevale Garden Centres 8½% Cv Pf 4.25p
York Waterworks 5% Db £2.50
Do 10% Rd Db 1996/98 £5.0

UK COMPANIES

■ **TODAY**
COMPANY MEETINGS:
Baring Stratton Inv Trust, 155 Bishopsgate, E.C., 2:30.
Derby Trust, 1 Connaught Place, W., 11:00.
Carlisle Group, Britannia Inter-Continental Hotel, Grosvenor Square, W., 9:00.
Daraa Estates, The Great Eastern Hotel, Liverpool Street, E.C., 10:10.
Foreign & Colonial Income Growth Inv Trust, Exchange House, Primrose Street, E.C., 12:15.
BOARD MEETINGS
Finals:
American Endeavour Fund
Applied Holographics
BTP
John Lusty
Ross Group
Salcland
Schroder UK Growth Fund
Secure Retirement
Turnpike Group
Interims:
Grainger Trust
Greenwich Comms.
Scotwood Inds.

■ **TOMORROW**
COMPANY MEETINGS:
Abtrust New Thai Inv Trust, 99 Charterhouse Street, E.C., 12:30.
Anagen, Potters Intl Hotel, 1 Fleet Road, Aldershot, Hampshire, 12:00.
Bertam, Tallow Chandlers Hall, 4 Dowgate Hill, E.C., 12:00.
English National Inv, 3 Finsbury Avenue, E.C., 12:00.
Eyecare Products, Broadwalk House, 5 Appold Street, E.C., 10:00.
Govett Oriental Inv Trust, Ironmongers Hall, Shaftesbury Place, Barbican, E.C., 12:00.
Greycoat, Thomas Exchange, 10 Queen Street Place, E.C., 9:00
Mercury European Privatisation Trust, The Glaziers Hall, 9 Montague Close, London Bridge, S.E., 3:00.
Olives Property, 8 Baker Street, W., 11:00.
Prowting, The Brewery, Chiswell Street, E.C., 12:30.
Reed Executive, Sir Christopher Wren's House, Thames Street, Windsor, Berks, 3:00.
Rowe Evans Invs, Tallow Chandlers Hall, 4 Dowgate Hill, E.C., 12:30.
Sears, London Marriott Hotel, Duke Street, W., 11:00.
Warner Howard, The Brewery, Chiswell Street, E.C., 12:00.
BOARD MEETINGS:
Finals:
Baring Emerging Europe
Business Post Group
DBS Management
Debenham Tewson
Chester Water
Chloride
Clayhithe
Evans of Leeds
Helma
Howden Group
Morrison Construction
MS Intl.
Norbain
Northamber
Nova Group
St James Beach Hotels
Tinsley Robor

[illegible]

■ **WEDNESDAY JUNE 26**
COMPANY MEETINGS:
[illegible]

■ **THURSDAY JUNE 27**
COMPANY MEETINGS:
[illegible]

■ **FRIDAY JUNE 28**
COMPANY MEETINGS:
[illegible]

Company meetings are annual general meetings unless otherwise stated.

Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.

Tim Jackson

Too soon to write off dead trees smeared with ink

One of the hoariest legends in advertising concerns a company that spent tens of millions a year on advertising. "Half of it is wasted," complained the chairman to his ad agency. "The trouble is, I don't know which half."

The Net is changing that, by allowing owners of Web sites to find out at low cost where their customers are coming from. That information can then be passed on in detail to advertisers. The novelty of this helps to explain the controversy over Yahoo! and Procter & Gamble. Yahoo! is a free search service that helps people find information on the Web, and which earns its revenues by selling online advertisements to companies. Like most of the leading Web media, Yahoo! likes to charge advertisers "per impression", meaning per occasion on which the company's ad is viewed by a potential customer. In terms of precision pricing, this is already an advance on print and television advertising, where rate cards are usually based on circulation or viewing figures for an issue or programme – not on how many readers or viewers look at a specific ad.

But Procter & Gamble wanted to go further. Rather than paying per impression, it wanted to pay only when a potential customer clicked on its ad and jumped to a page of information prepared by the company itself. The print or television equivalent would be to pay per coupon returned or per inquiry call generated. To the horror of its competitors, Yahoo! agreed to Procter & Gamble's demand. Its decision raised a storm of criticism from other web site owners, who felt that by allowing Procter & Gamble to pay on a "clickthrough" basis instead of per impression, Yahoo! had sold the pass, and would force everybody else to do the same. The critics were half right, in that the deal will probably become a template for the entire industry.

But does this matter? True, the deal gives the advertiser little incentive to invest in good ad copy, because bad ads will cost less to run. But Web site owners have a less respectable reason for opposing the principle. Too little is known about how willing Web users are to transact business electronically, and about how much time they spend looking at ads rather than drumming their fingers waiting for pages to appear down a slow phone line. When Web advertisers realise that advertising is less effective than they expected – an outcome that the Procter & Gamble deal makes more likely – they may conclude they have been overpaying.

During the next two or three years, numerous Web content businesses will close when they find themselves unable to cover editorial costs by advertising revenues. And once the Web advertising balloon is pricked, even those that survive may find themselves considerably less profitable than today's hockey-stick projections and sky-high valuations would imply.

A perfect example of the latter kind of business is Wired Ventures, the holding company for America's most fashionable technology magazine. Preparing for a flotation on Nasdaq, the company recently released a prospectus valuing it at $450m (£294m), about 18 times last year's sales (sales, not earnings). A glance at the prospectus reveals that Wired Ventures is really two businesses. One is *Wired* magazine, which has attracted 300,000 paid subscribers in less than three years, and has pulled in general-market advertisers like General Motors and Calvin Klein which normally avoid technology magazines like the plague. The other is a group of online ventures which make their money from ads, the biggest of which is a free electronic magazine, or e-zine, called *HotWired*. Started in 1994, *HotWired* is clever and technologically innovative, and has been spending heavily on good content to develop a pioneering electronic product that people want to read.

It requires some guesswork to say how the two different businesses are doing. But if sales, marketing, general and administrative costs are split out according to the number of people working on each side, the figures for first quarter 1996 look something like this. The magazine made a marginal loss of about $150,000 on sales of just over $7m, probably a result of offsetting early-stage costs in its British and Japanese editions against profits in the US edition. The online side made a staggering loss of $3.7m, the result of deducting $4.2m of costs from its $500,000 of sales.

The paper magazine is a hot property. Its subscribers' average age is 37, their average income is $122,000 a year, and half of them hold two university degrees or more. Circulation is growing at a mouth-watering rate. The online service was dismissed cruelly but accurately by a US commentator as "a hobby, not a business". Yet the online service, whose readers are younger, poorer and less well educated, and which faces considerable uncertainty as to whether it will ever win enough advertising to cover its costs, is valued by the IPO at $350m or more.

As the number of Net users grows and sale of online information becomes common, there may be great opportunities in Web publishing. But at present, publishers may find that their existing businesses, disparaged by the online folks as "smearing ink on dead trees", produce better returns than the fashionable online stuff. The valuations placed on content businesses like *HotWired* by US investors may make sense in two or three years. They certainly do not make sense now.

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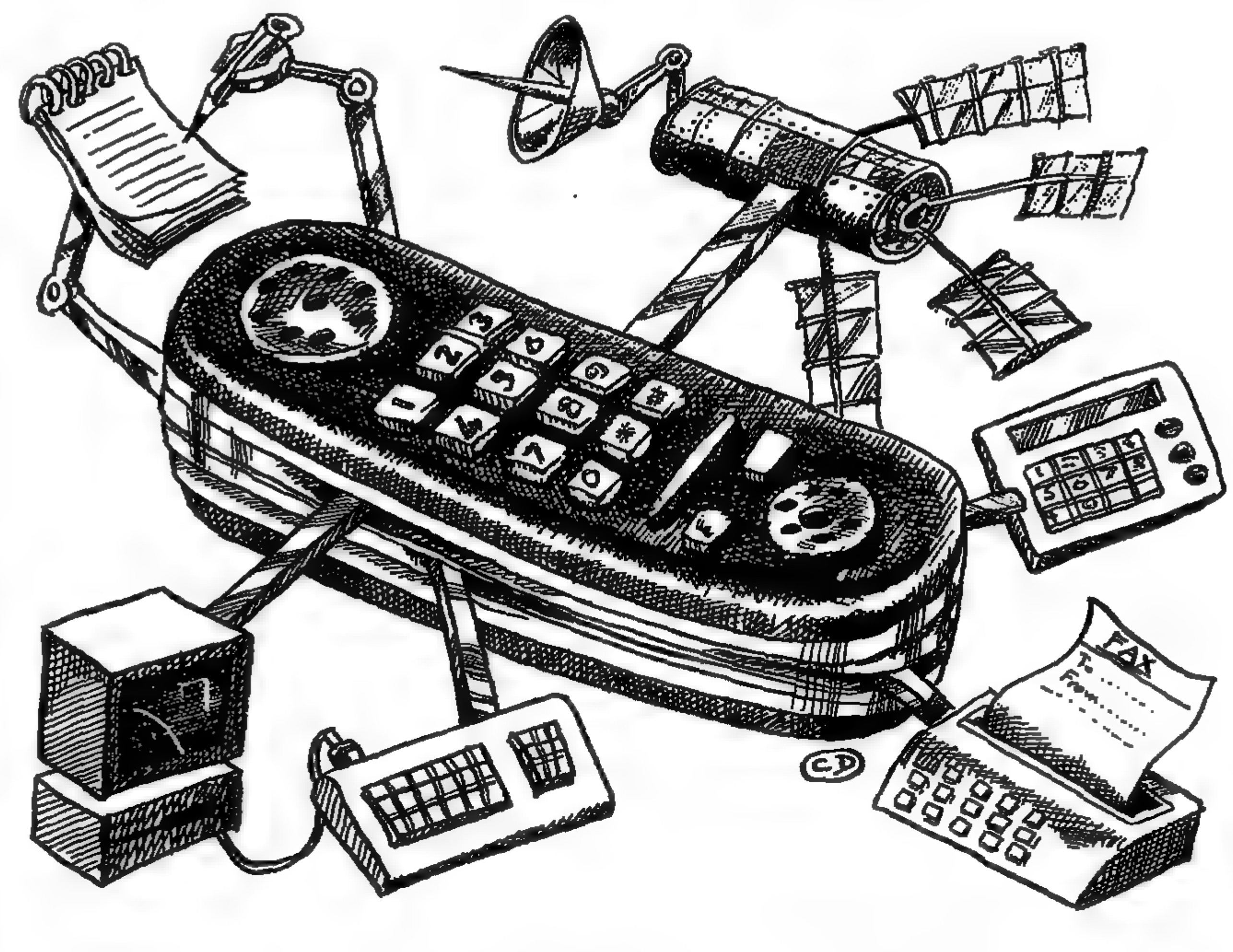
Brave new world boasts a phone by every deckchair

Hugh Carnegy outlines a Finnish vision of a telecoms utopia



You are on holiday, the children are romping happily on the beach at your feet and it is the perfect scene for the postcard you forgot to send the grandparents. No problem. Snap them with the digital camera and hook it up to the mobile phone. Write a short message via the phone key pad and send the combined picture and message instantly home to Mum without stirring from your deck chair.

That kind of thing will quite soon become commonplace if the vision of the future being pursued by Nokia, the Finnish telecoms equipment supplier, is fulfilled. After the worldwide explosion of growth in mobile phone use, Nokia is now looking to the transmission of data – including images – as the next step in radio-based, cellular telecoms to add to traditional voice transmission.

"We are not talking rocket science," says Mr Anssi Vanjoki, head of Nokia's Europe and Africa mobile phones division. "We are talking about things that will be here before the year 2000. All the components are known today – it is a question of putting them together with low-cost efficiency."

Nokia, the world's second largest supplier of mobile handsets, predicts that within five years 50 per cent of all cellular traffic will be data – compared with less than 10 per cent today.

Analysts' eyebrows shoot up at this dramatic prediction, which implies a sudden surge in the use of expensive products only now in their infancy. With coverage and capacity of cellular systems still patchy enough to cause some complaints about mobile voice quality, the prediction requires strong faith in the development of cellular technology.

Nokia will seek to convince the sceptics with a new product to be launched in August. Called a personal communicator, the Nokia 9000 combines a telephone, fax, e-mail and Internet connections, notepad facilities and personal organiser with 2 megabyte capacity, clock, calendar and calculator all in one pocket device.

At first sight it looks like a chunky regular mobile (at almost 400g it is bigger and weighs more than twice the latest mobile handsets). But it opens on a hinge down its length to reveal a miniature keyboard and nine-line LCD screen to command its remarkable range of functions.

You can write a fax and send it directly. You can receive and send e-mail. You can work (or play) on the Net. You can dial direct from your contacts file using the speaker phone and use the screen while you talk, perhaps to consult the document you have just received by fax or e-mail. All from the airport lounge, or from the train to work – or from the beach.

There must be a big question mark over how great demand will be for such a device: it will be expensive – costing about £1,000 or more; it will not offer a practical replacement for the laptop computer to the business traveller who works extensively during a trip. But Nokia is convinced that the 9000 is only the first step towards greatly extended cellular data transmission use.

To date, a limiting factor has been the low speed of data transmission via radio waves – which left cellular data transmission lagging far behind the capacity possible on fixed-link or satellite connections. But Nokia engineers say the gap is fast being closed as the industry works out how to compress the data on radio signals.

The key is the use of digital systems. Nokia will not launch the 9000 in the US as the US cellular network is still predominantly based on analogue systems which cannot handle data transmission. In Europe, the GSM standard digital cellular system has wide enough coverage to make the use of a device like the 9000 viable.

Assuming the engineers can dispel any doubts about technical quality, Nokia contends that the sky will be the limit for digital-based cellular communications. At present, the highest penetration rates for mobile phones in the world is 35 per cent of the population in Norway and Sweden. Mr Nigel Litchfield, Nokia's head of marketing, says with considerable bravado that eventually penetration rates for all kinds of cellular devices can reach more than 100 per cent.

He argues that cellular use will be extended not only geographically and for voice, but also into countless new functions. These range through picture transmission, cellular video-conferencing, vehicle navigation systems and electronic payments systems to devices to transmit automatically to utility billing departments information from household electricity, water and gas meters.

Cellular fashion gadgets will also become common, he predicts. "Within 5 to 10 years the wristwatch phone will be available. That will happen."

Louise Kehoe reviews the first issue of Microsoft's new webzine

Down to earth in cyberspace

Michael Kinsley, editor of Microsoft's new Slate Webzine, published today for the first time on the World Wide Web, is not seeking to endear himself to Internet enthusiasts or his new high-tech masters.

"We intend to take a fairly sceptical stance toward the romance and rapidly escalating vanity of cyberspace," he says in the introduction to the first issue of Slate (http://www.slate.com). "There is a deadening conformity in the hipness of cyberspace culture in which we don't intend to participate."

Part of Slate's mission, Mr Kinsley says, will be to "bring cyberspace down to earth".

The first issue of Slate achieves this goal to a significant degree.

It is – as he acknowledges critics will charge – a print magazine published in a new electronic medium. There is no animation. There are few graphics, few links to other sites, and few opportunities for reader interaction.

Indeed, there is little to recommend reading Slate on a computer rather than on paper.

The first hint that Mr Kinsley has only half-heartedly embraced the electronic medium comes on the contents page. There, readers are invited to explore options that include receiving Slate via electronic mail, downloading articles to read later, printing articles, or subscribing to "Slate on paper".

In contrast to most webzines, Slate includes several lengthy texts. Mr Kinsley offers no excuses. "We are running rather long articles comprised mostly of words . . . and putting our links mostly at the end of pieces, not in the pieces. That is rather conservative by Web standards and will probably raise a lot of complaints," he says.

In fact, Slate makes little use of Web technology to create links to related sites, one of the basic characteristics of the World Wide Web.

This might for example, have enabled a reader to switch from a Slate article about the changing social aspirations of Jewish Americans to another site that offers further insight on Jewish American culture. But it is not there.

Rejecting the use of this and other aspects of Internet technology is akin, one previewer of Slate said, "to insisting on publishing a hand-written book. It may stand out, but is it better?"

Mr Kinsley, however, is determined not to allow technology to compromise the quality of articles written for Slate. New users of the Internet are at first entranced by the technology, but when the excitement wears off they start looking for something worth reading, he says.

Slate is designed to appeal to readers who "already read serious magazines but are not cyberfreaks," says Kinsley. Most of the other webzines are little more than "trade publications."

Perhaps the greatest disappointment of Slate, however, is its insular view. Although it is published on the World Wide Web, it is a very American magazine, and moreover a very East Coast US magazine.

Mr Kinsley has moved to the "other Washington" but it is clear that his interests still lie in the US Capital. Already, he is fretting that his new locale places him "outside the buzz".

"It would be easy to publish a magazine on software from Redmond, Washington. It is more difficult to publish a political magazine here," he complains.

He is not sure how much interest there will be in Slate's articles about politics among his new colleagues. Most of what is talked about in "DC" "doesn't get on their radar screen" he says. So will it get on their computer screens?

Slate is designed to appeal to readers who "already read serious magazines, have access to the Internet but are not cyberfreaks" Mr Kinsley says. Most of the other webzines are little more than "trade publications" written for Internet enthusiasts, he maintains. "Hotwired is a really interesting magazine, but you would not want to read it unless you were really interested in the Web."

In one respect, however, Slate will be an innovator. It is planning to charge readers $20 (£13) for a one-year subscription, starting on November 1st.

"We believe that expecting readers to share the cost, as they do in print, is the only way serious journalism on the Web can be self supporting," says Mr Kinsley. "Depending completely on advertisers would not be healthy, even if it were possible." Depending on Microsoft for funding does not, however, represent a compromise, he insists.

Cyber sightings

● The Irish Times has revamped its online edition (www.irish-times.com), with new index features, more editorial content and a rather nifty live viewcam of O'Connell Street. Just the thing to tug at the heartstrings of ex-pats, who can order the newspaper's print edition for a special US rate via the site, or get details of the daily e-mail service digesting the paper's news, business and sports coverage. Well worth a visit. Lord knows what that celebrated Irish columnist Myles NaGopaleen would have made of it.

● IDATE is a French consultancy partnership specialising in the telecoms and information technology areas. This well-organised site (www.idate.fr) gives details of their services, publications and activities, including their "Cyberspace – Advantage Europe?" seminar later this year.

● The Exchange and Mart car search (www.exchangeandmart.co.uk) has a database of more than 50,000 used cars, searchable by make, region or price. Easy to use site and sure to attract a huge audience. Along similar lines is MotorTRAK's car locator (www.mmresearch.co.uk/motornet/index.htm) but it's less user-friendly and takes longer to get to the "meat".

● The Financial Information Network (www.finetwork.com) has daily market commentaries and a useful Bondwatch section. Although the commentaries are informative, they can also be somewhat difficult to read given the lack of paragraphing and the blue background.

● Keeping track of companies in the high-tech sector is, literally, a full-time job. But IMC's new Internet Index (http://index.imarcon.com) looks as if it may be a useful tool for a quick market overview. Composed of 23 companies whose primary business activity is Internet-related, the index is calculated daily and might prove to be a valuable sectoral snapshot.

● Er . . . www.afj.com will take you to the home page of the American Fastener Journal. Exactly why is really up to you.

steve.mcgookin@ft.com

Financial Times on the World Wide Web www.ft.com or www.usa.ft.com Updated daily

Travel News • Roger Bray

Schönefeld facelift

Business travellers who have struggled through the cramped baggage halls and staircase exits of Berlin's Tegel airport will rejoice at the news that Schönefeld is to be re-vamped to become the city's main gateway.

As Berlin becomes established as the new capital of Germany, passenger pressure will become more acute. Tegel, Tempelhof and Schönefeld combined have capacity for 15.5m passengers a year. Last year they handled just over 11m. By the end of the decade the total is expected to have risen to 15m.

Berlin has opted for a privately financed expansion of Schönefeld rather than a new airport. Schönefeld's single runway will be extended and a second built. A new terminal will be constructed next to the existing railway station. The plans – expected to be rubber-stamped today by the supervisory board of BBF, the Berlin Brandenburg airport holding company, will increase the airport's capacity from around 5m to 23m travellers a year.

It is likely to be open for business in 2007.

Ticketless travel

American Airlines is expected to announce this week that it has joined the lengthening list of carriers offering passengers on domestic flights the option of travelling without picking up a ticket.

Meanwhile British Airways, which has just agreed a controversial alliance with American will launch its first experiment with ticketless travel on July 17. The airline has confirmed it will try out the system on its Gatwick Aberdeen route, with the intention of extending it to all domestic services next spring.

At first reservations will be possible only direct or through BA shops, but in November customers can book through branches of Hogg Robinson and Portman Travel.

Togo warning

Travellers to Togo in west Africa are advised to take extra care following the shooting of a German visitor at a check-point in the capital, Lome. The UK Foreign Office warns travellers to stop when requested, submit to all vehicle searches and passport checks, and not to travel at night because of a a high level of street crime in Lome.

Cheaper flights

Low fare airlines continue to sprout in Europe. Britain's newest contender is Debonair, which has just launched a no frills, one class services from London's Luton Airport to Barcelona, Düsseldorf and Munich with up to three round-trips a day. Next month the airline plans to add Madrid – and launch a domestic service to Newcastle. In August it will start flying to Copenhagen. Four fares will be available on each route.

Fares will rise progressively as they sell out, from £49, to £69 and then £89 to a top fare of £99.

Australia air link

A new air link with Australia opens tomorrow when Emirates starts services between its Dubai base and Melbourne. Initially there will be two flights a week by Boeing 777 but from 11 July, the operation will increase to three.

New seats on ANA

Japan's All Nippon Airways has made sweeping changes in its first class cabins, introducing what it claims is the world's largest seat pitch – is The gap between the back of one seat and the one in front is 85ins.

Likely weather in the leading business centres

	Mon	Tue	Wed	Thu	Fri
Tokyo	27	[illegible]	[illegible]	25	26
Hong Kong	28	29	28	27	28
London	23	[illegible]	[illegible]	[illegible]	24
Frankfurt	[illegible]	21	24	27	28
New York	[illegible]	[illegible]	[illegible]	27	[illegible]
L Angeles	[illegible]	22	22	22	23
Milan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Paris	19	23	25	27	28
Zurich	[illegible]	[illegible]	20	22	24

The ferries aim to lure frequent travellers away from airlines and Le Shuttle, writes **Amon Cohen**

Channel of discovery

To most modern business travellers, the idea of journeying between the UK and the rest of Europe by sea seems as quaint as riding from London to Glasgow by stagecoach.

What the jet aircraft failed to do for the old-fashioned cross-Channel ferry 40 years ago, the argument goes, Eurostar has finished off in the 90s with regular, efficient services many times faster than even the quickest of sea vessels.

"There is a stigma attached to catching the boat. Boats are for going on holiday," says Ray Vanner, sales manager of Total Spectrum, a CD and computer disc packaging company based in Basingstoke, Hants.

But he is living proof that boats are not just for going on holiday. He travels to the Continent 30 times a year on business and almost always uses the same method – the Sally Ferries four-hour overnight crossing from Ramsgate to Ostend.

He finds being able to take his car ultimately quicker and more flexible than a flight or Eurostar. He gets a good night's sleep into the bargain, something that Le Shuttle, the tunnel's car-carrying service, cannot offer. It is also inexpensive – competitive pressure from the tunnel means that Channel crossings are now cheaper than they were five years ago.

Mr Vanner believes that Channel crossings are "an undiscovered means of business travel" and what statistical evidence there is bears him out. Hoverspeed, which operates Hovercraft from Dover to Calais and SeaCats from Folkestone to Boulogne, estimates that only 6 per cent of its customers are business travellers.

Geoffrey Ede, managing director of Hoverspeed, believes the market could be exploited far more and is aiming to push that figure up to 10 per cent by the end of this year. To achieve that, Hoverspeed recently launched a Blue Riband class for frequent travellers, which includes priority for loading, unloading, the wait-list and late bookings, and also seating in a designated area, complimentary refreshments, low-cost annual insurance and no cancellation fees.

In short, Hoverspeed is attempting to take on the airlines by imitating them. "We are the first cross-Channel operator to offer an airline-style service, from check-in to duty-free shopping, in our terminals," says Mr Ede.

That will be taken one step further shortly with the planned introduction of dedicated departure lounges for business travellers.

Sally also operates a frequent-user scheme like those run by airlines. Its Nautical Miles programme offers many of the benefits of Hoverspeed's Blue Riband service and awards mileage points.

Ray Vanner finds that the scheme gives him about one free trip in five but he is a

confirmed ferry convert in any case.

"If you are travelling to continental Europe, it is not worth going to see just one person, so you have to get around when you arrive there," he says. "If you fly, you have to hire a car or use taxis or public transport. That is OK if your destination is in a major city but if one of your customers is in a small town 60 miles from an airport, it is better to have a car.

"I can get some sleep on the ferry, wake up refreshed and be at a supplier by 7.30-8am. People start work much earlier in continental Europe so that can be a big advantage, especially if you consider the one-hour time difference between the UK and the continent.

"Air travel, on the other hand, seems to cripple the business traveller. Four of us flew to Amsterdam recently and the price doubled because we were not staying over a Saturday night."

Indeed one advantage for business travellers is that they are, in a sense, off-peak customers as far as ferry operators are concerned. The standard Ramsgate-Ostend return, for instance, costs £99 for journeys of more than five days but is slashed to £54 return for trips of fewer than five days.

In many respects, however, the greatest competitor for the cross-Channel services is not the airlines or Eurostar but Le Shuttle, the tunnel's motoring service. It is also waking up to the potential of the corporate market and next month will launch a business class that features dedicated tolls, fast-track lanes, business lounge and dedicated customer enquiry line.

That is not good enough for Mr Vanner who would still rather have the benefit of spending the night on the ferry. Perhaps it is aimed more at the likes of Roger Rippingale, managing director of freight company Basilisk Transport, also based in Basingstoke.

Not only does he send his firm's vans on the Hovercraft but he also uses the service himself to visit clients on the Continent. "It's as quick as the tunnel and it's cheaper," he says. "I have checked in at Dover and driven out the other side in 45 minutes."

The actual time at sea is 27 minutes, whereas Le Shuttle takes 35 minutes from platform to platform and one hour "from motorway to autoroute", according to Eurotunnel's press office. With myriad fare structures, Mr Rippingale's price claims are difficult to verify but he does receive a special deal from Hoverspeed for being a freight customer as well.

Over and beyond the Hovercraft versus Le Shuttle arguments, Mr Rippingale, a frequent traveller to France, Belgium and Germany, is unequivocally in favour of taking his car. "If you are travelling a short distance, you don't gain a lot of time travelling by air and I enjoy driving," he says.

Other cross-Channel operators aiming for the business market include Stena Ferries, which has a small, child-free club class for a £5-£6 supplement on each journey.

But Stena has another trick up its sleeve which could make sea crossings more attractive to business travellers on other routes. On March 1, it introduced a high-speed superferry on the Holyhead-Dun Laoghaire route, which halved conventional crossing times to 99 minutes.

It will do the same for the Stranraer-Belfast route later this summer, cutting the crossing time to 90 minutes, and next year will introduce a third high-speed superferry that will slash a Harwich-Hook of Holland crossing to a remarkable three hours and 30 minutes.

With the rise of Eurostar and high-speed trains in France and Germany, who says that the only way to travel around Europe today is by air?

Ground rules for flyers

To American business travellers, the frequent flyer programme is irresistible. Airlines can cosset them all they like – the promise of rewards such as leisure breaks on the beaches of Hawaii is what counts.

The 239-member International Air Transport Association has been investigating why travellers plump for particular airlines. It wants to set up industry benchmarks for quality of service. The reasons, it has found, vary in different parts of the world.

In the US, passengers are more likely to be swayed by the quality of frequent flyer deals than to stick with an airline which gives them good service.

In Europe, on the other hand, where there is greater loyalty to national flag carriers, previous good experience remains a much more persuasive factor.

Much the same goes for travellers based in the Asia-Pacific region, where the airline's nationality and reputation are important.

Carolyn Childs, Iata's market research manager, says it is unclear, overall, whether business travellers are searching harder for lower fares.

But she points to evidence that small firms shop around, rather than forego vital marketing forays, and that some larger companies are setting ceilings on travel budgets, saying "this is how much you have to spend – see how many trips you can get out of it".

That travelling in the back of the bus has its disadvantages, however, is demonstrated by relative levels of satisfaction between business and economy passengers.

More than a quarter of the former are happy with the comfort of their seats – rising to over 30 per cent in North America. But less than 10 per cent of economy passengers are similarly satisfied.

If seats discriminate, stewards and stewardesses appear to be stubbornly egalitarian.

The research reveals a much smaller gap between business customers and the huddled masses behind the dividing curtain when it comes to their appreciation of cabin staff courtesy – particularly in Europe.

Surprisingly, perhaps, the attitude of cabin staff emerged as the single most important element of a pleasant flight when the whole spectrum of fare payers – business and budget – was taken into account. It outweighed seat comfort, the quality of food – and even speed and efficiency at check-in.

Roger Bray

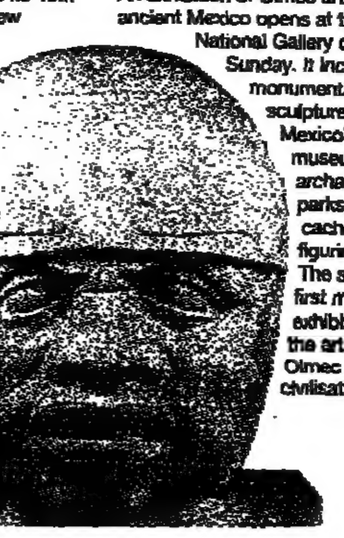
OPENINGS

PARIS
Jazz pianist Oscar Peterson (left) begins a brief European tour at the Salle Pleyel in Paris tomorrow, leading a quartet which reunites him with bassist Niels Henning Orsted Pedersen. Peterson, who suffered a stroke last year, is said to be back on top form. He plays the Barbican Hall in London on Saturday.

The Pompidou Centre has organised the most comprehensive survey of Francis Bacon's work (right) since the Tate Gallery's retrospective in 1985. It comprises 79 paintings, including the "Three Studies for Figures at the Base of a Crucifixion" (1944) and his final Triptych of 1988. The show opens on Thursday, and moves to Munich in November.

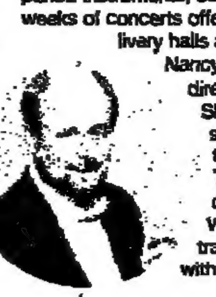
SANTA FE
Santa Fe Opera celebrates its 40th season on Friday with a new production of "Madame Butterfly", staged by John Copley and conducted by the company's founder John Crosby. "Don Giovanni" is revived on Saturday, and the other operas this summer are Strauss's "Daphne", Stravinsky's "The Rake's Progress" and the world premiere of Tobias Picker's "Emmeline".

WASHINGTON
An exhibition of Olmec art from ancient Mexico opens at the National Gallery of Art on Sunday. It includes 17 monumental sculptures from Mexico's museums and archaeological parks, and a cache of stone figurines (left). The show is the first major exhibition of the art of the Olmec civilisation.



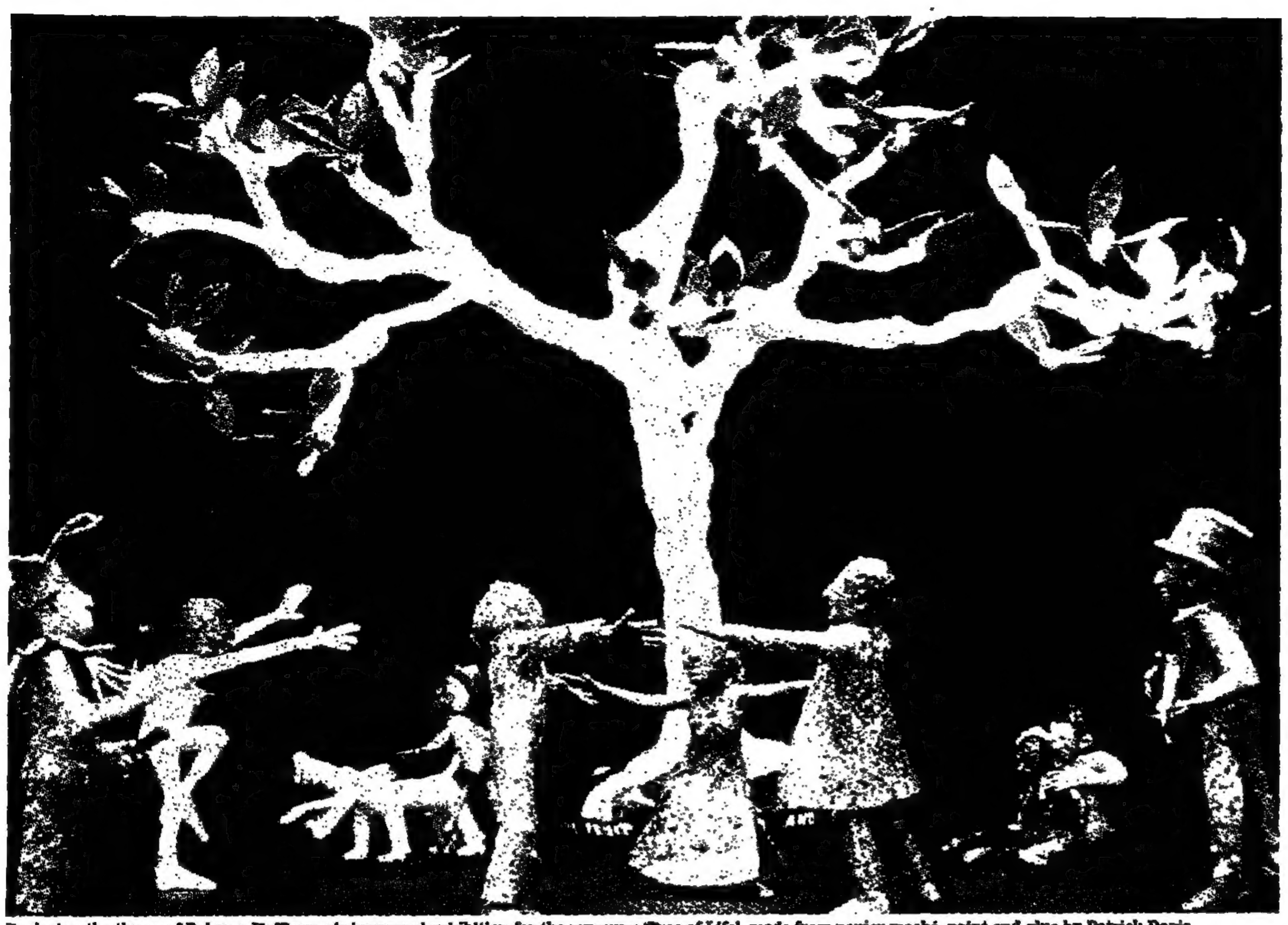
LONDON
Premiered at La Scala, Milan, in 1845, Verdi's "Giovanna d'Arco" finally reaches Covent Garden tonight as part of the Royal Opera's Verdi festival. Daniele Gatti (right) conducts, Philip Prowse designs and directs, and the leading roles are sung by June Anderson, Dennis O'Neill and Vladimir Chernov.

The City of London festival opens tomorrow with a performance of Smetana's "My Country" on period instruments, conducted by Roger Norrington (below, left). Three weeks of concerts offer a chance to discover the magnificent churches, livery halls and open spaces of London's Square Mile.



Nancy Meckler and Polly Teale, who together adapted and directed "Anna Karenina" and "The Mill on the Floss" for Shared Experience, now bring "War and Peace" to the stage of the National Theatre. The production opens in the Cottesloe auditorium tomorrow.

Two productions by the Royal Shakespeare Company open at the Barbican this week: "The Phoenician Women", Katie Mitchell's staging of the Euripides tragedy, and "Richard III", Stephen Pimlott's staging, with David Troughton as the celebrated monarch.



Exploring the theme of Rebecca Hoffberger's inaugural exhibition for the museum: 'Tree of Life', made from papier maché, paint and glue by Patrick Davis

Where eccentricity is the norm

Claire Frankel visits the new American Visionary Art Museum in Baltimore

The instant you step into one of the seven galleries in the three-storey, pie-shaped building, the secret is out. The American Visionary Art Museum in Baltimore, Maryland, is a museum with a difference. Nobody is whispering. Blatant enthusiasm is encouraged. Biographies of the artists are highly visible – and they do not mention any art schools. Rather, they tell the curious, ordinary, sometimes painful, lives of a farmer, preacher, forest ranger, librarian, neurobiologist, communications analyst; intuitive artists from all walks who express in paint or wood or clay or fibre an inner, irrepressible spark.

"People who find their own way often give us the greatest breakthroughs," says Rebecca Hoffberger, the dynamic force behind the museum. The sense of exuberant eccentricity is characterised by Vollis Simpson's three-ton, 55ft tall, whirligig which is mounted on the outside of the building. It is a colourful, churning, twisting pinwheel made out of found objects – air-filter cups hung on bicycle wheels, propellers, spiralling milk-shake canisters – all whirring in the wind.

Hoffberger spent ten years planning the museum, travelling the country to gather more than 4000 examples of visionary art. She persuaded the city of Baltimore to give the waterfront property (an old copper paint company site and an adjacent former whiskey warehouse), then privately raised nearly $6m (£3.90m) to open the doors. There is no endowment and the museum receives no city funds. About $400,000 has to be raised for each new exhibition. One enthusiastic donor was the Body Shop's Anita Roddick, who contributed close to $1m. The US Congress designated AVAM "a national treasure ... a national repository and educational centre for visionary art" and a British Friends of AVAM has been set up.

Architects Rebecca Swanston and Alex Castro designed round the existing 1913 paint factory, adding concrete and magnifying the form which follows the curve of the harbour. The trick, neatly accomplished, was to make it look integral rather than added on. "Unlike other museums, we knew this one had a different spirit – we would need to create a sense of adventure," says Swanston. Light, energy and grace combine in this main building of 35,000 square feet. An inner, glassed ramp at the entrance gives way to a wide, dramatic spiral stair, core of the building, which opens the door to a new world.

Artist David Hess welded and interwove metal branches among the iron struts of the handrails which carry the eye straight up to the top skylight. Climbing within the crook of the stair is a 65ft whittled pine assemblage called "DNA" by engineer truck driver Charlie Stagg. It provides a continuing revelation as you wind up to the café overlooking the harbour. Odd-shaped galleries veer off the main stair on each of the three floors.

Hoffberger chose "The Tree of Life" as the theme of her inaugural exhibition, which runs until September 2. It explores "the visionary's intuitive world – a world filled with reverence for nature and respect for her many secrets". An alcove enfolding the haunting sculpture by an anonymous British psychiatric patient is the starting point of the exhibition. Carved of applewood, this gaunt self-portrait becomes Humanity; it was given to the museum by Edward Adamson, founder of British Art Therapy, who also donated another work, psychiatric patient William Kirlick's painting of a blind man in a desert who asks the question, "Where am I, who am I, why am I?"

Wandering through this idiosyncratic exhibition, the visitor is alternately delighted, bemused, and shocked. Fantasmagoric dobermans and cats carved out of sycamore and cypress, glistening dragonflies, self-portraits, larger-than-life-sized figures and colourful quilts all have a place. A tree of life has pine cones, squirrels and birds perched on branches, similar in spirit to the new Hyde Park gates. Carved benches in animal shapes provide seating. Whole walls are devoted to the work of one artist.

Gerald Hawkes says each matchstick he uses represents a human being. He used more than a million to make a circular table and continued his artistry with "My Becky", a portrait made of matchsticks, enlivened with food colouring. Computer designer Wayne Kusy took 192,000 toothpicks and built a 16ft model of the Lusitania, followed by one of the Cutty Sark. "If other people consider it art," said Kusy, "I guess it is."

Messages come across clearly: a comical, crouching man with dollar signs for eyes wolfs down a beautiful neighbourhood and excretes square, grey buildings. It is called "The Real Estate Developer". In another carving, "Urban Driver" sits in front of his wheel with a grim face on all four sides, red mouths, white teeth, glaring eyes. Funny? Yes and no. "The Kennedys and King" are three standing figures, Jack, Bobby and Martin Luther, each shot through the head with the dates of their deaths below them.

The adjacent Sculpture Barn has 40ft high red brick walls and lofty windows. Greeted by Clyde Jones's colourful, wooden "critters" frolicking on their plinths, we can see beyond to a dramatic group of ten charred cypress trunks, bending this way and that, headless and armless, forbidding figures called "Ancestors".

Self-taught artist Ben Wilson came over from London to build a non-denominational wedding chapel in the courtyard, now blanketed with wild flowers – "the perfect metaphor", says Hoffberger. Wilson used what he called a "variety of woods like a painter would choose from a palette of paints", constructing a delightful peek-through logged edifice spliced here and there with carved figures, angels, hearts and curiosities.

"We don't want just a repository of interesting things to look at, a visual mausoleum," says Hoffberger. "We hope to expand the whole concept of art by focusing on creative invention in general."

American Visionary Art Museum, 800 Key Highway Baltimore, Maryland, Tel: 4101244-1900 Closed Mondays year-round, and Tuesdays September-May.

'Victim art' put through its paces

CandoCo, the dance company involving performers both able-bodied and physically disabled, is Britain's most prestigious example of what is now known as "victim art". Its premises could not be more correct. In each piece it presents, it shows you the co-existence of those who can use their legs and those who can't; it does not pretend that the disabled do not have their various limitations and, indeed, frustrations; it shows them coping on their own as well as with others; and it does not propose that the only forms of behaviour to be shown to them by the able-bodied should be patience and good manners and tender loving care.

Still, what CandoCo offers is victim art. As sociology, as therapy, as education, it could hardly be more enlightened. As serious aesthetic experience, however, it is a non-starter. And it is dismaying to find how many dance-goers have abandoned their usual criteria to be kind to this frequently dreary and dismal troupe.

That some of them did so until earlier this year is surely because of the phenomenal performing of David Toole – who, though without legs and often dispensing with a wheelchair, often made himself look the most able-bodied person on stage. Not only was his skill in arm movements of a very rare order, he could also perform compelling feats of balance. Most vitally of all, by demonstrating fast and surprising ways of propelling himself around, he could make us see the actual disabilities of being conventionally "able-bodied". However, he has now retired from the stage.

CandoCo choreography usually addresses three movement issues. First, ways in which the able-bodied and disabled can co-exist on stage. Second, things to do with people in wheelchairs. Third, things that can only be done by the able-bodied. And so it was last week when it presented three pieces – all different and all boring – at the Royal Court during the Barclays New Stages Festival.

There is always an awkward moment in any CandoCo performance when the able-bodied seem to be saying to the disabled: "These are the types of movement you can't do." Frequently this is followed by Jon French, a mover of extremely limited ability, advancing to the audience in his wheelchair, his face inviting us to wonder on what kind of thoughts may be passing through his mind. Or by Celeste Dandeker (many years ago an admired dancer with London Contemporary Dance Theatre), whose face, with its soulful eyes, is far from dull.

Unfortunately, neither Dandeker nor French are remotely interesting to watch as dancers. You take in their faces, you take in the very limited ability they have from the neck down, and what else is left for you to take in? Very little. CandoCo has never yet persuaded me that the wheelchair has dance potential; or that there is dance pleasure in watching Dandeker and French doing lightweight gestures; or that there is any kinaesthetic thrill to be had from watching Dandeker being hoisted and swung in the air.

In *Christy Don't Leave So Soon*, Dandeker embraces two good-looking young men, and is lifted and supported by them too. Lucky her! But she is a figure of pathos, and her way of turning her face to the audience – the silent stare – is victimhood at its most gently appealing. In *Trades and Trusts*, a pop-sociology work all about sexy social behaviour by Guilherme Botelho, French has a peculiar non-relationship with a daft but eroticised girl.

Nothing about it, in artistic terms, is good – except for its intentions

At the end, she writhes at his feet like a dumb animal on heat, and he, attaching her to his wheelchair, drags her off while singing (badly) "I can't help falling in love with you". But he neither sings nor speaks nor moves with any finesse.

And the other performers are given only limited opportunities to show how able-bodied they are. All the choreography is of what would usually be called student level; it has a tepid modicum of craftsmanship. Only with Toole did CandoCo ever show any stylistic originality; everything it now does looks like a pastiche of other dances made for able-bodied dancers. Nothing about CandoCo is offensive. But nothing about it, in artistic terms, is good – except for its intentions.

Alastair Macaulay

INTERNATIONAL ARTS GUIDE

AMSTERDAM

EXHIBITION
Beurs van Berlage
Tel: 31-20-6265257
● Pablo Picasso, Lust for Life. Tekeningen, grafiek en keramiek na 1945: exhibition of drawings, lithos, engravings and ceramics created by Pablo Picasso after the second world war. The display includes some 60 vases and plates, and 200 drawings and graphic works from French and Italian private collections; to Sep 1
POP-MUSIC
Koninklijk Theater Carré
Tel: 31-20-6226177
● Elvis Costello & The Attractions; 8.15pm; Jun 29

BERLIN

CONCERT
Philharmonie & Kammermusiksaal
Tel: 49-30-2614383
● Mass in B minor: by J.S. Bach. Performed by the Choir and Orchestra of the Collegium Vocale Gent with conductor Philippe Herreweghe. Soloists include Vasiljka Jezovsek, Sarah Conolly, Andreas Scholl, Mark Padmore and Peter Kooij; 8pm; Jun 28

BONN

EXHIBITION
Kunst- und Ausstellungshalle der Bundesrepublik Deutschland
Tel: 49-228-9171200
● Wisdom and Compassion. The Sacred Art of Tibet: this exhibition focuses on the traditional themes of the art of Tibetan Buddhism and presents the important stylistic developments from the 9th to the 19th century. On display are 190 objects of sacral art, mainly scroll-paintings (tangka) and ornate metal sculptures, but also application work and tapestries as well as wooden, ivory and stone sculptures with a strong religious expression; to Aug 25

BOSTON

EXHIBITION
Museum of Fine Arts
Tel: 1-617-267-9300
● Gauguin and the School of Pont-Aven: this exhibition includes 80 oil paintings, 30 works on paper and four sculptures as well as works by Bernard and 18 other artists associated with Gauguin's presence in Brittany; from Jun 26 to Sep 15

CAMBRIDGE (US)

EXHIBITION
Busch Reisinger Museum
Tel: 1-617-495-9400
● History, Self, and Society: an exhibition focusing on three self-representations by German artists in which a man's suit plays a decisive role: Max Beckmann's "Self Portrait in Tuxedo" (1927), Joseph Beuys' "Felt Suit" (1970) and a painting by Markus Lüpertz from the 1970s; to Aug 18

CHICAGO

EXHIBITION
Art Institute of Chicago
Tel: 1-312-4433600
● Roy DeCarava: A Retrospective: exhibition of more than 200 photographs by Roy DeCarava, ranging in date from 1949 to 1994. The exhibition captures the wide variety of subjects he addressed over the years, from intimate still-lifes to portraits of jazz musicians to poignant reflections of the panorama of daily human life; to Sep 15

COLOGNE

EXHIBITION
Museum Ludwig
Tel: 49-221-2212379
● Die Expressionisten - Vom Aufbruch bis zur Verfemung: exhibition commemorating the collector Dr Josef Haubrich, who donated his collection of Expressionist art to the city of Cologne 50 years ago. The display includes some 400 paintings, sculptures, watercolours and prints from international collections, giving an overview of German Expressionist art; to Aug 25

COPENHAGEN

CONCERT
Tivoli Concert Hall
Tel: 45-33 15 10 01
● Tivolis Symfoniorkester: with conductor Heinrich Schiff and violinist Frank Peter Zimmermann perform Beethoven's Egmont Overture and Symphony No.7; 7.30pm; Jun 29

DUBLIN

EXHIBITION
National Gallery of Ireland
Tel: 353-1-6615133
● Joan Miró (1893-1983): this exhibition brings together some 100 of Miró's graphic works from the collection of the Museo Nacional Centro Reina Sofia of Madrid; to Jul 28

FLORENCE

OPERA
Teatro Comunale
Tel: 39-55-211158
● Aida: by Verdi. Conducted by Zubin Mehta and performed by the Orchestra e Coro del Maggio Musicale Fiorentino. Soloists include Dolora Zajick and Nina Rautio; 8.30pm; Jun 25, 26, 28, 29

GHENT

CONCERT
De Vlaamse Opera
Tel: 32-9-2230681
● Symfonisch Orkest van de Vlaamse Opera: with conductor Stefan Soltesz and the Ladies Choir of De Vlaamse Opera perform works by Debussy and Mahler; 8pm; Jun 27

LONDON

EXHIBITION
The Hayward Gallery
Tel: 44-171-9604242
● Claes Oldenburgh: an Anthology: this exhibition includes around 150 sculptures, maquettes, drawings, notebook sketches and film. This American artist's work became prominent with the emergence of Pop Art in the early 1960s; to Aug 18
THEATRE
Barbican Theatre
Tel: 44-171-6388891
● Julius Caesar: by Shakespeare. Directed by Peter Hall and performed by the Royal Shakespeare Company. The cast includes Christopher Benjamin; 7.15pm; Jun 28, 29 (also 2p[illegible]

MELBOURNE

EXHIBITION
National Gallery of Victoria
Tel: 61-3-92080222
● J.M.W. Turner: exhibition of approximately 60 paintings and watercolours by the English landscape painter Joseph Mallord William Turner (1775-1851): from Jun 27 to Sep 10

NEW YORK

JAZZ & BLUES
Blue Note Tel: 1-212-475-8592
● Lionel Hampton & The Golden Men of Jazz: perform jazz music; 9pm & 11.30pm; from Jun 25 to Jun 30

PARIS

CONCERT
Théâtre du Châtelet
Tel: 33-1 42 33 00 00
● City of Birmingham Symphony Orchestra: with conductor Sir Simon Rattle perform works by Tippett, Haydn and Shostakovich; 8pm; Jun 28

ROME

EXHIBITION
Museo Nazionale del Palazzo Venezia Tel: 39-6-6798865
● Felicien Rops. La modernità scandalosa: retrospective exhibition devoted to the work of the Belgian graphic artist Felicien Rops (1833-1898), who settled in Paris in the mid-1870s; to Sep 1

VIENNA

CONCERT
Konzerthaus Tel: 43-1-7121211
● The United Philharmonic Vienna: with conductor Janos Kulka and soloists Sona Ghazarian, Peter Dvorksy, Leo Nucci and Kurt Rydl perform works by Donizetti, Puccini, Smetana and Verdi; 7.30pm; Jun 27

WASHINGTON

EXHIBITION
National Gallery of Art
Tel: 1-202-7374215
● Scenes of Daily Life: Genre Prints from the Housebook Master to Rembrandt van Rijn: this exhibition presents 38 prints, six illustrated books and one copper plate depicting scenes of everyday life in Germany and the Netherlands from the late 15th to the late 17th century; to Aug 18

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08.30
Squawk Box

10.00
European Money Wheel

18.00
Financial Times Business Tonight

Michael Prowse · America

The golden dream

US conservatives believe that gold should again be allowed to play a role in helping secure monetary stability

One of the first acts of a new US president should be to "stabilise the dollar value of the nation's gold reserves ... as a critical first step toward restoring sound money to America". Such was the advice proffered last week by Mr Jack Kemp, a leading Republican strategist and former member of President Bush's cabinet.

His remarks are certain to baffle politicians. The world leaders gathering in Lyons for this week's meeting of the Group of Seven might, at a pinch, consider the merits of stabilising the dollar against another paper currency, such as the yen or D-Mark. But they would be horrified at any *suggestion that it be linked to* what Keynes dismissed as the "barbarous relic".

Mr Kemp was inchoately voicing opinions shared by many US conservatives. They have been restive ever since President Richard Nixon was forced to sever the link between the dollar and gold in 1971. After that, they note, a lot went wrong. Central banks lost control of inflation. Currencies fluctuated wildly. Budget deficits soared. And productivity growth declined. The demand for a "return to gold" is really a call for the harmony and prosperity of a bygone era.

It is puzzling that such aspirations are dismissed so contemptuously. We have, after all, seen a return of the "Victorian mindset": politicians again profess to believe in the virtues of free markets, low inflation and fiscal discipline. Acceptance of these ideas has allowed a renaissance of private capital markets, which are again fuelling development in far-flung places – just as they did a century ago. Yet one piece of the Victorian jigsaw is still missing: we lack currency stability and suffer periodic *bouts of inflation because gold* no longer plays a role as a monetary anchor.

And yet currency stability is of the greatest concern to political leaders, especially in Europe. The European Union has embarked on the politically dangerous course of constructing a new single currency – the euro. But *instead* of replacing national paper monies with yet another paper money managed by a committee, why not consider reforms that would re-establish a monetary role for gold, a truly international money? Why not create a single market for the whole world, rather than just little Europe?

But how could gold be given a monetary role again? Since governments do not allow people to use gold as a medium of exchange, its true monetary value in terms of existing paper currencies is hard to judge. *A return to gold cannot* be achieved at a stroke of a pen: politicians cannot simply declare the convertibility of their currency into gold at an arbitrary rate. It is difficult to forget or forgive the economic pain that Winston Churchill inflicted in 1925 by returning Britain to the gold standard at a grossly overvalued rate.

One suggested approach is for the world's governments gradually to privatise their vast – and useless – gold stocks. At present some 35,000 tons of gold sits idly in central bank vaults. As Professor Richard Timberlake, a US monetary theorist, once proposed, governments could simply issue citizens with certificates or vouchers entitling them to, say, so many ounces of their nation's gold. The process could continue until the gold hoarded in central bank vaults was entirely returned to the people.

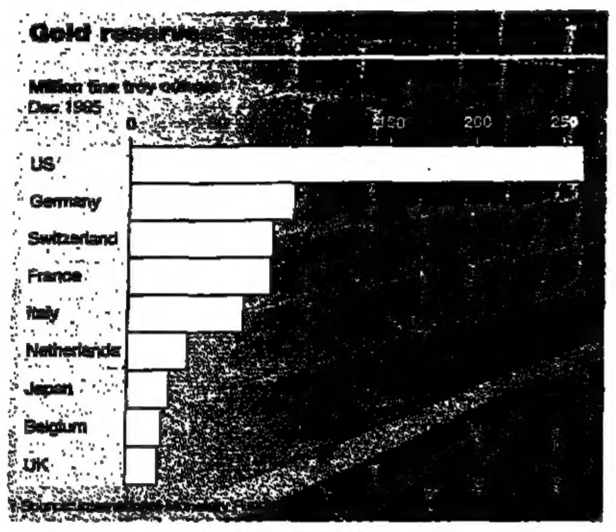
Individuals would deposit their certificates with commercial banks which would open special gold current accounts. The banks would present the certificates to the central bank and take possession of the requisite number of gold ingots. Gold would gradually acquire the properties of real money. People would write cheques based on *their gold accounts or, if they* wished, withdraw gold in the form of coins. Banks would lend against their physical gold reserves.

Gold would thus become a medium of exchange in daily use alongside national paper currencies. A true market price of every global currency against gold would be established. And a powerful check against governments' desire to pursue inflationary policies would exist. If the Federal Reserve, say, printed too many dollars the market price of gold would rise instantly and people would switch from dollars to private gold money. The same would happen if central banks elsewhere tried to inflate: their citizens would switch out of their national currencies into gold.

As a result all currencies would be stabilised against gold. Under the partial gold standards enacted earlier this century, gold remained in the vaults of central banks and thus, ultimately, under the control of governments. This time it would be private money: the guardians of monetary stability would be the people, rather than governments. Short of seizing the privately owned gold currency, there would be no question of "going off gold".

I would be the first to admit that this is a pipe dream. Fort Knox is not going to be dismantled. Gold will remain locked away in vaults, gathering dust. Governments cherish their control of paper monies. They are so marvellously flexible. If you need just a tiny bit more – to win an election, fight a war or finance an expensive social programme – you just turn on the printing presses. Will it cause inflation? Of course, but the impact is delayed and in the meantime any number of economists will deny all possible ill-effects. The fashion of the times may require that central banks be declared "independent", but this changes nothing; in reality they are always subject to political influence.

In the 19th century, national currencies were simply names for certain weights of gold. In effect, there was a single global market and a single global currency. Since its supply was tightly constrained by the cost of gold mining, nobody had any reason to fear inflation. Interest rates were ridiculously low. It is the conceit of politicians – their desire to control and manage the global system – that prevents us restoring this last piece of the Victorian jigsaw, and enjoying the extra wealth that such stability would make possible.



LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'), e-mail: letters.editor@ft.com. Translation may be available for letters written in the main international languages.

Wider debate justified

From Mr D.R. Chandler.

Sir, It is disturbing that Mr Niall Fitzgerald (Letters, June 18) is unable to distinguish facts from opinions. If I were a shareholder or employee of Unilever, I should want to hear that the company considered that the quality of its goods and services were fundamental to its success and not necessarily the circumstances of the particular market within which it operated. The will to succeed will bring success.

However, the EU is more than a single market. It is a political union. Now, whether the balance of perceived economic benefits versus the perceived economic disadvantages and the perceived political benefits versus the perceived political disadvantages is quite so obvious as Mr Fitzgerald makes out, I am not so sure. Indeed, whether he thinks the political implications are even worth considering is not clear.

What is clear is that Mr Fitzgerald has identified certain benefits to the trading pattern of his own company and is determined to put, as he says, business interests at the top of the European agenda. I do not have a problem with this. What irks is his insistence that there is not a wider debate and his ignoring those many business issues which are adversely affected by European *legislation.*

If there is to be a sensible, rational debate on the vital issues affecting us all, let's recognise what they are and examine the pros and cons.

D.R. Chandler,
18 Homefield Road,
Bromley, Kent BR1 3AL, UK

Questionable economics behind much of materials recycling

From Mr R.G. Loram.

Sir, In compliance with the European Commission directive on packaging waste, the UK government has finally agreed a scheme that will impose additional, totally unproductive annual costs on UK commerce and industry of between £250m and £500m. Other EU countries will be in the same boat; Germany has saddled itself with a burden of no less than £1.7bn.

Yet, if you ask the reason for this economic self-flagellation, you will not receive a coherent or logical answer. No-one ever asks the simple question – "why recycle?".

There are only two reasons why materials should be recycled: because it is economic to do so or, if it is not economic, because the environmental benefits are such as to justify the cost. The principal environmental benefit is energy saving, and the reduction of pollution of that energy use. But if the savings are significant they will make recycling economic anyway.

Metals recycling is economic, but waste paper and cardboard recycling has always been cyclic because potential supply exceeds demand and the economics are more finely balanced; glass recycling is economic if the public does the collecting but the recycling of plastics is only economic in special cases.

For every academic who will demonstrate that paper recycling is environmentally beneficial you can find at least one, probably more, who will argue to the contrary. Glass recycling is marginally *beneficial if there is not too* much transport involved but no case has yet been made out for the environmental benefits of general plastics recycling.

As an energy-from-waste specialist I deplore burying the large quantities of energy in the ground that we currently do in the UK, but economic energy recovery in a competitive, over-supplied electricity market is difficult. There is a respectable argument for a modest subsidy in this field, if it could be effective, on the basis of conserving the finite fossil fuel resources for *future* generations but I can see no argument for frittering away European countries' financial resources on uneconomic recycling.

R.G. Loram,
11 Priory Road,
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Wirral,
Merseyside L48 7ET,
UK

Quantifying benefits of EU protection

From Prof Patrick Minford.

Sir, Martin Wolf, in his thoughtful reactions to my calculations of our net gains from the EU ("Thinking the unthinkable", June 18), argued, as I would, that a country's growth rate depends on its supply-side character and policies; he is as reluctant as I am *to attribute any of our* growth, or lack of it, to whether we are within the protection of a customs union. Inward investment for the EU market is a case in point.

The UK has throughout its history been a receiver and provider of foreign investment which in turn is an important channel of technology transfer; had we been outside the EU the industries that would have absorbed UK resources and attracted co-operating foreign and other investment would no doubt have been different from those we are now building up within the EU, notably car and electronic assembly. The UK resources, however, and their capabilities would have been the same, as conditioned in particular by the supply-side reforms of the 1980s.

The extra returns generated by the EU protective wall for these industries are nevertheless a benefit to UK providers of resources; it is this that I attempted to quantify. It would be as unfair – and as empirically supported – to argue that these extra returns somehow damaged our supply-side edge by giving us an easier ride in world markets, as it would be to argue that the diversion of UK resources to these protected *industries somehow* gave those resources a superior performance.

Patrick Minford,
Edward Gonner professor of applied economics,
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Do Channel tunnel bankers really deserve sympathy?

From Mr C. Gordon Tether.

Sir, The Lex Column has a well-deserved reputation for attaching a high priority to fair play in shaping its comments on the corporate business scene. So why do we find it of late sympathising with the hard-done-by attitude the banking community is manifesting about the consequences of its involvement in the Channel *tunnel financial cataclysm?*

For the reality is, first, that it is the banks' irresponsible disregard of long-established lending rules that has landed them in the present mess and, second, that the losses they have allegedly sustained are in any case largely only on paper.

The resources they use being basically derived from short-term borrowing, British banks have traditionally been enjoined from participating in long-term lending operations or the kind represented by the Channel tunnel. Moreover, they are supposed to have the highest regard for prudence in everything they do. Yet glamorous projects that, like the Channel tunnel, qualify for the description "visionary" are notoriously apt to take far longer to complete than originally envisaged.

With this as the background, it is inconceivable that, if the banking system's lending departments had been asked for their advice about participating in a project so ambitious as to have all the appearance of being "a tunnel too far", they would have answered other than with a resounding negative. From which it follows that, if hundreds of these institutions were in due course to be found rushing, lemming-like to pour huge sums of money into the venture, it was not ordinary commercial considerations their managements were responding to.

There is no difficulty in discerning what the real motivation was. With the drive for European integration manifestly moving into a higher gear, the centuries-old vision of linking the UK to the continent with a tunnel was *being seen in the second half* of the 1980s as an idea whose time had come.

Even so, it seems unlikely that the banking system would have been quite so ready to engage in what was essentially a politics-related, collective lending operation if it had not known that there was a way of ensuring that the real cost would not be all that much to worry about if the worst, unhappily, did come to the worst – notably, by availing itself of its time-honoured credit-creation privileges to fund it.

So, the *Lex Column* should be asking itself, who then is really entitled to its sympathy? Is it the banks who broke their own rules to indulge a political impulse at little cost to themselves and now want to claim ownership of a large part of the completed vision? Or is it the shareholders who contributed real money, drawn from their own pockets, to finance it – who so far have received no reward and are likely to go on *being denied* one far into the distant future if the banks have their way?

C. Gordon Tether,
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Personal View · Tony Miller

Better to give than receive

The west should follow the lead of the Asia-Pacific region in trade liberalisation

By the close of the Uruguay *Round of world* trade negotiations the boast was that developed country tariffs on manufactured goods had been cut to an average of only 3 per cent. A justifiable boast on the face of it, given pre-second world war highs of more than 40 per cent.

But let us look a little closer at the emperor's new clothes. Surely as tariffs come down the yields also fall for the governments that collect them. And at about 3 per cent, tariffs must surely cost almost as much to collect as they pro*duce in revenue. So why* bother to collect them at all? Why not just scrap them?

It certainly does not seem to make much sense to embark on another protracted round of multilateral tariff negotiations simply so trade negotiators can justify getting rid of nuisance tariffs.

Who in their right mind would vote for a tax on consumers which increases the profits of a country's domestic producers at the expense of their international competitiveness while yielding almost no revenue? But a tariff of 5 per cent or less is exactly that.

Manufacturers might grumble about tariff cuts, especially those in the textiles and clothing sector, which cowers behind much higher tariffs than apply in other sectors. But politicians in search of votes ought to be able to capitalise on the simple argument of the self-interest of consumers and the interests economy as a whole in sweeping aside such objections.

Ironically, experience suggests that cutting tariffs when they are high is easier than reducing them further when *they are low.*

Trade negotiators are often required by their political masters to give away no more than they get in tariff concessions. As tariffs fall they have less and less to give away and they are more and more loath to expend it without others reducing their tariffs first.

The idea that reciprocal reductions are necessary has thus become accepted as a political fact of life even though *everybody* can see *it is* economic nonsense. It has crept into both the language and the process of trade negotiations. Demonstrating a bal*anced outcome* through *shared* pain rather than mutual advantage provides a convenient way of justifying results domestically. So the talk is of tariff "concessions" with complaints about "free riders".

> The idea that reciprocal reductions are necessary is accepted as a fact of life even though everyone can see that it is economic nonsense

Tariff negotiators face each other across the table in Geneva like poker players. They hide their cards. They play as adversaries, as though the game was one in which the winner takes all. At the end of each drawn-out round, all have *cards they have kept up their* sleeves. Too often the result is one that involves much smaller cuts than many people are prepared to offer simply to ensure that everyone is on board.

But there are signs that attitudes are changing and that enlightened self-interest may yet prevail. This is evident in the moves to free trade and investment among the members of trade blocs such as the *European Union and the North* American Free Trade Agreement. It can also be seen in the much more courageous reforms decided independently by countries in the Asia-Pacific region. Chile, China, Indonesia and New Zealand are excellent examples of countries whose economies have forged ahead once the barriers have been dropped.

It is this new willingness to bring down barriers unilaterally *which inspired* the approach to trade liberalisation unveiled by the Asia-Pacific Economic Co-operation forum at Osaka last November. Apec members were committed to achieving free flows of goods, services and investment by 2010 for industrialised members, *2020* for the others. In Osaka they committed themselves to producing individual action plans setting out how each would bring down its barriers to achieve the goal.

Explicitly, there is no intention for the goal to be reached by bilateral or multilateral negotiations. It will be achieved voluntarily and unilaterally, although where it can be co-ordinated by consultation between members this will be done.

The Philippines used its position as this year's chair of Apec to press further ahead. It *has tabled a bold proposal* that tariff reductions already agreed by members of the Association of South-east Asian Nations (Asean), which covers part of the Apec area, should be extended to all trading partners by 2000 on a "most favoured nation" basis.

It is exactly this combination of competitive bidding and peer pressure that will ensure Apec leads the way in liberalisation. It is an example which *the west would do well to follow.*

The countries of north America and western Europe were the architects and chief advocates of the liberal, rule-based, post-war trading system. The relative openness of their markets over the last half century has enabled many developing countries to follow an export-led path to growth. All the beneficiaries are grateful, and some, such as Singapore and Hong Kong, have themselves maintained open markets.

Now that the others are following suit with enthusiastic liberalisation *programmes* of their own, north America and Europe should not forget the lesson they previously taught. Liberalisation should be a self-interested race to the finish line, not a game of chicken.

The author is director-general of trade for the Hong Kong government and the territory's senior official representative at Apec

هكذا من الاصل

FINANCIAL TIMES

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Monday June 24 1996

Last chance for Lloyd's

It is exactly 200 years since Lloyd's, the London insurance market, began regular general meetings of its members. Few have come at a more crucial time than this year's, on July 15.

The future of the market lies inside the envelopes sent to each Lloyd's Name in the last few days. Each is being told how much to pay in a final settlement which draws a line under past losses, resolves the host of internal lawsuits in which the market was mired, and shuffles off the burden of past unresolved claims to a new reinsurance company, Equitas. Names will be able to escape forever from Lloyd's – or to participate in a market free of the burdens of the past.

The resolution of the crisis depends on the great majority of Names accepting the offer by the end of August. They should do so. That does not mean the settlement is in every respects equitable; or that it is alone sufficient for Lloyd's future prosperity. But this is the best offer Names will get. Rejecting it will almost certainly involve the liquidation of the market.

An overall settlement, even one as complex as this, can only be a rough approximation to fairness. There will remain question-marks over the extent to which some outside names were allowed – or encouraged – to go on underwriting in the 1980s when the risks of the American liability crisis were already known inside Lime Street. The settlement of the web of internal litigation, though essential if Lloyd's was to survive, means this issue will not be aired in court.

Similarly, the settlement may reward some Names who have persistently refused to pay legitimate demands at the expense of others who have loyally paid up claims of more dubious merit. But for most Names the plan offers finality in return for a payment lower than they might have expected a few months ago.

Even if the plan is agreed, Lloyd's will need skilful business management. As a collection of specialist insurance boutiques, the market has a future – but only if it retains the scale efficiencies provided by its current share of the bulk insurance market. That will be harder to retain now other insurers offer greater capital strength and lower costs.

Sweeping cost-cutting, a searching re-examination of the way the central operations of the market are run, and a new regulatory framework are all necessary to survive in such a competitive arena. Ministers have promised an inquiry into the laws governing Lloyd's, starting next year. Whatever the political complexion of the government when this inquiry reports, there will be no escaping the need to provide parliamentary time and impetus for legislation.

All that lies ahead. In the meantime, the future of the market hangs on what members decide over the next month or so. Accepting the settlement may not be the most attractive of choices; but it is the only realistic one.

Sinking ships

The power of special interest lobbies to sway votes in the US Congress has long bedevilled Washington's efforts to conclude important international trade agreements. But rarely has that power been applied more perversely than to a proposed agreement to impose much-needed commercial disciplines on world shipbuilding. The result has not only imperilled an arrangement of which the US is the main architect and champion. It jeopardises the interests of the US producers which the lobbyists purport to defend.

The accord, which took five years of negotiation in the Organisation for Economic Co-operation and Development, would place internationally-agreed limits on subsidies to merchant shipyards. It would be backed by binding disputes mechanisms, providing for sanctions against violators and – more questionably – by anti-dumping procedures to curb "injurious" price competition.

The agreement, which must be ratified by all the signatories, now awaits action only by the US. But it has been dealt a blow by the House of Representatives, which has overwhelmingly backed amendments in conflict with its central principles. The likely economic impact of the amendments – the most controversial of which would prolong federal loan guarantees to US shipyards – is small. But they seriously threaten the political compromise on which the agreement rests. They are unacceptable to the EU and would give Japan and South Korea a convenient pretext to withdraw from the deal. Both acquiesced in it only under heavy pressure from Washington.

Collapse of the agreement would risk setting off another international subsidy race and intensifying price competition in an already weak world market. The danger is greatest in Europe. Though huge government support has failed to halt the industry's decline, Brussels faces growing pressure to permit still bigger subsidies if the OECD deal is not in place by mid-October.

US shipbuilders have everything to lose from such an outcome. Many are struggling to survive deep cuts in defence orders by re-entering the world market for merchant vessels. Their already slender chances of success would be further weakened by a world-wide free-for-all, in which they would be squeezed between heavily-subsidised European yards and much more efficient Asian rivals.

There is still a chance that action by the Senate, which has yet to vote on the OECD deal, can repair the damage done by the House before Congress recesses for the elections. That opportunity must be seized. Spurning it would not only threaten a return to ruinous competition at taxpayers' expense. It would also harm the credibility of the US as a reliable negotiating partner.

Popular injustice

Many a policy fiasco and injustice has its roots in a Conservative party conference. It was true of the poll tax. It is equally true of the government's decision to withdraw social security benefits from asylum seekers, a policy announced by Mr Peter Lilley, the social security secretary, at last year's Tory conference and struck down by the Court of Appeal last week as unlawful and "uncompromisingly draconian".

Mr Lilley may appeal the decision to the House of Lords. If he loses there he could resort to primary legislation, which would not be subject to the objection raised by the Court of Appeal that such drastic infringements of the rights of asylum seekers should not be made by statutory instruments.

Given the government's fragile parliamentary majority, it is possible that the policy will fall. But even if upheld by the Lords, or enacted by parliament as statute law, it remains unjust and impolitic. Unjust because, as one of the appeal judges put it last week, it "inevitably" defeats the statutory right of asylum seekers to claim refugee status – or, at least, of those asylum seekers lacking private means. The government is boasting that the number of asylum seekers has fallen by 20 per cent since the benefit cuts were instituted in February. The number could halve and still inflict misery and injustice on thousands of bona fide asylum applicants.

It is this which makes the policy impolitic, since few in Britain – and Mr Lilley is not among them – claim to wish to end Britain's long and humane record as a haven for refugees from political oppression. The monetary savings at stake – about £200m a year – are utterly trifling in the context of the £90bn social security budget. In any case, only the naive will believe that the need for savings is driving the policy. The thirst for cheap applause, aroused by attacks on the depredations of foreigners as by nothing else these days, appears to have been far more important, rendering the policy extremely distasteful.

The importance of last week's ruling goes beyond the implications for asylum seekers. Once again a ministerial order on a controversial issue has been cancelled by the courts. In this case ministers were almost inviting trouble by seeking to enact a radical change in policy by means of a statutory instrument.

However, the language of the majority opinions in last week's decision testifies to the increasingly activist pretensions of Britain's top judges. Lord Justice Simon Brown argued that withdrawing benefits would leave some asylum seekers "so destitute that to my mind no civilised nation can tolerate it". This sounds like a supreme court justice interpreting a Bill of Rights. Since the UK does not yet have one the judges should be careful.

An uneasy ceasefire in Europe

Britain seems destined to hold Europe hostage in the coming months, warns **Lionel Barber**

There is life after the beef war, as European Union leaders discovered at their Florence summit. Mad cow disease has produced mad politics these past two months. Florence restored a sense of calm, thanks to creative Italian diplomacy and a measure of goodwill which exceeded the expectations of Mr John Major, the British prime minister.

The willingness to settle the beef crisis was less a favour to Mr Major, more a recognition that failure would escalate tensions between Britain and Europe with unforeseeable consequences which would jeopardise the EU's two political priorities – the Maastricht treaty review conference and preparations for monetary union.

The UK may also have to pay a price for its policy of non-co-operation, the most serious disruption of EU business since President Charles De Gaulle ordered his "empty chair" policy in 1965.

In the end, the Italian-brokered compromise on beef offered the same terms which most believe could have been obtained with honour several weeks ago. In return for the EU pledging to lift in stages its worldwide ban on British beef exports, conditional on rigorous scientific checks, Mr Major abandoned his blocking campaign.

Britain can appeal on a case-by-case basis to the European Commission and scientific experts for permission to sell beef to non-EU countries. Europe's farmers can expect a bigger cheque – Ecu850m (£685m), up from Ecu650m – in compensation. Thus, the crisis appears contained in political terms. But no firm timetable exists for easing the embargo, despite hints from Mr Major that he wants action by autumn. Meanwhile, Britain is pursuing legal action in the European Court of Justice against the ban on sales to third countries while continuing to challenge the legality of the original ban.

On Saturday afternoon, Mr Jacques Santer, president of the European Commission, signalled it was time to forgive but not to forget. "This should not have happened and it should never happen again. In a crisis like this there are no winners, only losers."

If there was a summit loser, it was Mr Santer. His proposed confidence pact between employers, trade unions and governments to fight unemployment met a cool reception. Its symbolic centrepiece – the relaunch of long-stalled trans-European transport networks – foundered on last-minute German objections to his request for an extra Ecu1.2bn in EU financing.

Mr Santer's jobs initiative is his first gamble since taking office 18 months ago. The rebuff in Florence says much about the balance of power between the European Commission and member states.

First, EU leaders are opposed to pan-European economic initiatives in areas of national responsibility. Mr Helmut Kohl, the German chancellor, spoke as forcibly as Mr Major on this point. Mr José Maria Aznar, the new rightwing Spanish prime minister, said it was not up to public administrations to create jobs.

Second, every ecu counts as member states continue to trim public deficits to meet the Maastricht treaty targets of 3 per cent of gross domestic product needed to qualify for monetary union. The instincts of Presidents Jacques Chirac, of France, and Romano Prodi, of Italy, were to support Mr Santer, but they bowed to Germany's insistence on budgetary discipline.

Mr Santer wanted to shift Ecu1.7bn savings from the farm budget into spending on infrastructure, research and development; but EU finance ministers insisted on the money returning to national treasuries. A Commission compromise, postponing actual disbursement of money to 1998-99, also failed. Third, EU induced fiscal discipline is shrinking continental horizons, at least in the short term. Trans-European networks ought to be a showcase for European competitiveness. Yet the plans for high-speed train lines linking Paris to Kiev, Moscow and St Petersburg or a new rail motorway through the Brenner tunnel remained stalled, as much due to disagreement between national governments over planning, technical and environment standards as a shortage of cash.

In fairness to Mr Santer, his pact of confidence is on ice rather than in the deep freezer. Employers and trade unions have signalled they are ready to discuss plans for more flexible working hours.

The wider lesson of the summit is that the lines of national and EU-wide responsibilities are becoming more clearly defined. Thus, sovereignty-conscious Britain is ready to submit to Commission inspectors traipsing through abattoirs and demanding detail on the plans for eradicating mad cow disease. But the UK will not consider giving the Commission new powers affecting foreign and home affairs policy.

Collectively, almost no country is ready to surrender fresh areas of competence to the Commission, least of all in economic policy. Yet the vast majority, with the exception of the ever-ambivalent British, are willing to hand over responsibility for running monetary policy to an independent European central bank. These trends are important because they will shape debate on the final technical preparations for economic and monetary union which should be wrapped up by the end of the year, as well as the outcome of the Maastricht treaty review conference which opened three months ago.

Its first three months of negotiations have been painstakingly slow. Many blame the UK for intransigence, particularly because it will not support any extension of majority voting.

In Florence, EU leaders pledged to accelerate work on the intergovernmental conference. A draft treaty could be ready by December, but the outcome depends on the timing of the British general election.

Whether by accident or design, Britain seems destined to hold Europe hostage for the next 12 months. Though this time Mr Major can blame the electoral calendar rather than mad cow disease.

A disciplined line: Helmut Kohl (centre) speaks to Romano Prodi and Jacques Chirac (right) at the summit AP

Tricky way ahead after Florence crossroads

Britain and its continental partners are setting off in different directions, says **Philip Stephens**

Europe has given up on John Major. And, if his words reflect his intentions, Mr Major is about to give up on Europe. Absurd in itself, the now-resolved dispute over beef was the harbinger of a more serious rupture.

At the Florence summit came visible confirmation that his continental colleagues no longer regard the prime minister as someone with whom they can do serious business. In Helmut Kohl we saw indulgent condescension. In Jacques Chirac aloof indifference. Others made no effort to hide their contempt. No matter, one foreign minister told me as he looked ahead to the general election. Mr Major would be gone within a matter of months.

This was not just about beef. The residue of ill feeling left by the British tactics was everywhere apparent. I lost count of the times I was told that the prime minister had gained nothing from his obstructionism. But more striking was the sense that, as they look to Europe's future, others have decided they can no longer accommodate their awkward island neighbour. Like distant relatives at a wedding, the British are tolerated but not welcomed. Kenneth Clarke, the chancellor, alone seems at ease.

Mr Major was unabashed. Less than a week ago he had delivered a sermon on the need to remain actively, though not uncritically, engaged in Europe. He was neither phobe nor phile. In one of those awful phrases beloved of political spin doctors, Britain was the essential grit in the European oyster.

It not seem like that in Florence.

Instead, Mr Major seemed anxious to amplify points of difference. He secured yet another opt-out, this time covering the European Court of Justice's jurisdiction over the new Europol police intelligence agency. He forshadowed a bitter response to an expected ruling from that same court which would oblige Britain to agree a standard 48-hour working week.

Then the prime minister anticipated with some relish an acceleration of the work of the intergovernmental conference on further moves towards European integration. To the initial surprise of the summit, he enthusiastically backed the idea that the forthcoming Irish presidency should present a draft text of the proposed treaty changes at the Dublin summit in December.

But while others would like rapid progress towards a new treaty, Mr Major's intentions are altogether different. A draft text would allow him to spell out which of the proposals he would veto in the cause of national sovereignty. Tony Blair might be put on the spot in the months before the election. In this Mr Major may have miscalculated. There are indeed some clear dividing lines between Conservatives and Labour. But they are not as significant as the divisions within the Conservative party.

Mr Major is raising expectations which, as it proved over beef, he cannot meet. The Tory Eurosceptics' demand for a decisive weakening of the court was greeted with derision among officials from other governments in Florence. So too was the notion that Britain could leave the Common Fisheries Policy.

On one issue the prime minister did strike a chord – the need for flexibility in the future development of the Union. But while he sees it operating on a case-by-case basis to allow Britain to add to a growing list of opt-outs from EU policies, France and Germany take a different view. They want the flexibility principle enshrined in the treaty to circumvent the national veto which Mr Major now wields so proudly. Then he could simply be ignored. For now, the government has unlikely allies in countries like Spain and Ireland, which fear that they too might be left behind by an inner core of Germany, France and the Benelux. But their patience with the British may soon be exhausted.

The divergence is still greater on economic and monetary union. Whatever happens in the intergovernmental conference, Emu now defines the ambitions of Messrs Kohl and Chirac. It is the route to their Europe. They remain convinced a single currency is within reach. Much of the technical work should be finished by the end of the year. Britain, it is assumed, will stand aside.

Mr Clarke does what he can to keep alive the prospect that sterling might yet join. He kept out of the Florence communiqué any reference to membership of the exchange rate mechanism as a prerequisite for participation. But privately at least, the prime minister makes no such pretence. Save for the certain loss of his chancellor and the probable destruction of his government, Mr Major would bow to his party's Eurosceptics and say No in advance of the election.

Florence then was a crossroads. Britain and Europe are no longer travelling along the same track at a different pace. They have set off in different directions.

· OBSERVER ·

A failure to communicate

■ Heads are still being scratched in Germany's business community over the abrupt departure of Rolf-Dieter Leister from his post as boss of Deutsche Telekom's 21-strong Aufsichtsrat, or non-executive supervisory board.

When the decision was announced last Monday even Ron Sommer, Deutsche Telekom's chief executive, said he was "surprised". Others inside the company were less so, given that Sommer didn't appreciate Leister's hands-on attitude.

Sommer is trying to tighten up things inside Europe's biggest telecoms operator, before the lumbering behemoth is partially privatised later this year.

Leister, a management consultant who used to be head of IBM's German operations, had a rather grand approach to the telecoms business. Insiders point to the fact that he filed travel expenses for DM600,000 (£260,870) for 1995; rather steep, some felt, although his task of interviewing 40-odd external candidates for new jobs understandably racked up a few bills.

KPMG, the auditors, have pronounced these expenses entirely in order. But executives are trying to cut back on sudden hikes in costs, as the day is looming when they must answer to shareholders.

Whatever the case, Leister will probably find other occupation soon as he really does appear to understand something about the quagmire of telecoms. Your call is held in a queue and will be answered shortly...

Father figure

■ Poland's bankrupt Gdansk shipyard may be sinking under debts but Father Henryk Jankowski, the shipbuilders' chaplain, continues to bob about among the flotsam and jetsam, somewhat to the embarrassment of Warsaw's diplomatic community.

The formidable prelate was once lionised by western emissaries as a contact with Lech Walesa and Solidarity. In turn, he hosted sumptuous meals for world leaders like Margaret Thatcher at his parish of St Bridget's in Gdansk.

But the flow of embassy invitations shrank abruptly last summer after the Father delivered a sermon whose anti-semitic note was too obvious to be ignored. Nor has he been invited to this year's national day parties at western embassies – with the exception of the German bash.

But to the hosts' consternation this hasn't kept him away. Father Jankowski, who recently said the devil inspired journalists to criticise him, may also be blaming Satan for losing the invitations in the post. As they say, the devil is in the details.

Given the chaplain's views, it would be rather generous to credit him with chutzpah.

Pardon my French

■ Events were proceeding well for Henry Cheng, the property tycoon and head of the Better Hong Kong Foundation, as he explained his confidence in the territory's future under Chinese sovereignty. But then came the question about passports – and the revelation that his is French.

This has become a sensitive subject since Governor Chris Patten's barbed comment about tycoons failing to stand up for Hong Kong's political institutions, and about the foreign passports that many carry in their back pockets.

Cheng's response? That he puts his money where his mouth is. A quarter of his company's equity is invested in China and much of the rest is in Hong Kong. The foreign passport is just a matter of convenience.

Particularly convenient if the changes post-1997 should not be for the better.

Football mania

■ The insults that British tabloids tossed against Spain before Saturday's European championship quarter-final – won by England on penalties – largely failed to flush out a matching response.

The conservative ABC, whose editors one suspects of having the word Gibraltar tattooed on their chests, could not resist the provocation, however. "The Battle of Britain" was the headline on its Saturday front page. Its envoy at the tournament, Enrique Ortego, was particularly vexed by the Daily Mirror's joke about Spanish men growing moustaches to look like their mothers: "They, these catatonic Englishmen, who can only laugh and have fun once they have ten pints of beer in their pale bodies, and whose only contribution to human development is driving on the left... are not able to grow hair in such a strategic place because it might give them a sign of identity, of which they have none."

Fine judgment

■ At a recent Delhi reception a UN official found he had only one business card left – and faced the extended hands of two eminent foreign correspondents. Before the official could make the embarrassing decision of which back to favour, David Gore-Booth, Britain's high commissioner to India, whipped it from his hand, ripped it neatly in two and handed each back a half each, saying: "There you are, no arguments". King Solomon would have approved.

The Financial Times

100 years ago

Cuba and the United States
A special messenger of the State Department arrived in Washington to-day from Havana bringing to the President the special report of General Fitzburgh Lee, Consul-General of the United States in Havana, on the condition of affairs in the island of Cuba. Mr. Cleveland is on a fishing excursion, but left orders that the document in question should be sent on to him as soon as it arrived in Washington. It is thought here that an important and startling message on the Cuban question will soon be sent to Congress by Mr. Cleveland.

50 years ago

Decline on Wall Street
New York:- This week's weakness of security markets was not unexpected. Market analysts say that this has been a long bull market and it is natural to expect setbacks. THere is a shifting of sentiment among business men and bankers, however, regarding the business outlook, while some Washington economists are beginning to worry about deflation instead of inflation. During the late stage of the war everyone talked constantly of the huge backlog of demand, and of inflation and the big boom ahead. Now some are beginning to suggest an intermediate setback to business.

FINANCIAL TIMES
Monday June 24 1996

'Soccer summit' ends frosty period in relations

Japan and South Korea vow to strengthen ties

By John Burton in Seoul

The leaders of Japan and South Korea yesterday ended a rare summit with a vow to begin a new era of co-operation in their relations, which are still overshadowed by Japan's past colonisation of the Korean peninsula.

The discussions between Mr Ryutaro Hashimoto, Japan's prime minister, and South Korea's President Kim Young-sam were dubbed the "soccer summit" following the decision that the two nations would co-host the World Cup in 2002.

The World Cup decision ended a recent frosty period in Tokyo-Seoul ties caused by a territorial dispute over a small island in the Sea of Japan, during which Mr Kim snubbed Mr Hashimoto by refusing to host a visit after the Japanese leader took office in January.

In an attempt to promote harmonious relations, the summit agenda was stripped of topics such as the rival territorial claims to the disputed island, known as Tokdo in Korean and Takeshima in Japanese, and Japan's brutal colonial rule of Korea between 1910 and 1945.

The meeting focused on a joint policy toward North Korea, the proposed settling of fishing rights in the Sea of Japan, and preparations for the World Cup.

Mr Hashimoto publicly apologised during a press conference to the Korean "comfort women", who were forced to serve in Japanese army brothels during the Second World War. "I extend my wholehearted apology and remorse," he said.

Elderly Korean women forced to serve in the brothels have been demonstrating recently in front of the Japanese embassy and companies in Seoul demanding an official apology and financial compensation from Tokyo.

Another indication of fragile bilateral relations was the restrictions placed yesterday on a programme of increased sports and cultural exchanges. Sport exchanges were limited to such non-controversial games as volleyball, hockey and basketball since "the results for soccer and other major sports can easily hurt national sentiments", explained a Korean government spokesman.

Japan agreed to consult closely with Seoul concerning North Korea in an attempt to ease South Korean suspicions that Tokyo might unilaterally forge ties with Pyongyang.

The two leaders also shared concerns that election-year politics in the US may affect the Clinton administration's policy on North Korea, which is emerging as a campaign issue.

Mr Hashimoto criticised the Republican-controlled US Congress for cutting Washington's contribution to the international consortium that is building light-water nuclear reactors in North Korea. Mr Bob Dole, the Republican presidential challenger, has also attacked Mr Clinton for "coddling" North Korea.

Struggle for power may follow death of Papandreou

By Kerin Hope in Athens

Andreas Papandreou, Greece's first Socialist prime minister, died yesterday of heart failure aged 77, after dominating Greek politics since the return of democracy in 1974.

The current prime minister, Mr Costas Simitis, flew back from the European Union summit to assert his authority over the governing party.

Since he took over from Papandreou as premier in January, Mr Simitis has been systematically undermined by influential Socialists who opposed his pro-European policies and remained sympathetic to Papandreou.

Mr Simitis held a cabinet meeting immediately after his return from Florence, before paying his last respects to Papandreou whose body is lying in state at the Athens cathedral. He will be buried tomorrow.

Papandreou founded the pan-Hellenic Socialist Movement on his return to Greece from exile in 1974 and won power in 1981 on a strong anti-American and socialist platform. He implemented long-overdue social reforms but took public sector borrowing to record levels and exasperated Greece's EU and Nato partners.

He lost power in 1989 following a series of corruption scandals but was re-elected in 1993 at the age of 74 despite ill-health, corruption charges, and criticism of his private life, marked by a much-publicised affair and eventual marriage to Dimitra Liani, an Olympic Airways stewardess more than 30 years his junior.

However, his second period in office was marked by weakening health and he eventually resigning as prime minister in January, though he retained the leadership of the party.

The former prime minister had spent most of Saturday evening working with advisers on a keynote speech to this week's crucial Pasok congress, which he hoped to address. The congress will go ahead on Thursday as planned, giving Mr Simitis and his reformist followers an unparalleled opportunity to take control of Pasok.

Papandreou's death is also expected to cut short his 40-year-old wife's political ambitions. One senior Socialist said that far from being able to capitalise on her husband's political legacy and become a parliamentary candidate herself, Mrs Papandreou would "quickly fade into the obscurity that befits a prime minister's widow".

Despite his fondness for anti-US rhetoric, Papandreou was described in a White House statement yesterday as "one of the most influential political leaders in modern Greek history" and "a key figure in assuring the triumph of democracy in the land of its birth".

Obituary, Page 2

THE LEX COLUMN

Webs within the Web

It is far too early to say whether Microsoft's new "webzine" will be a success, but the Internet magazine does start life with one big advantage: oodles of free publicity. The fact that Mr Michael Kinsley, one of the US's best-known commentators, has teamed up with Mr Bill Gates, its most controversial businessman, has seen to that.

Publicity is important in most industries; but, for Internet publishers, it is vital. There is so much content on the Web, most of it junk, that publishers have to fight to attract viewers. And the more traffic they generate, the more ads they sell.

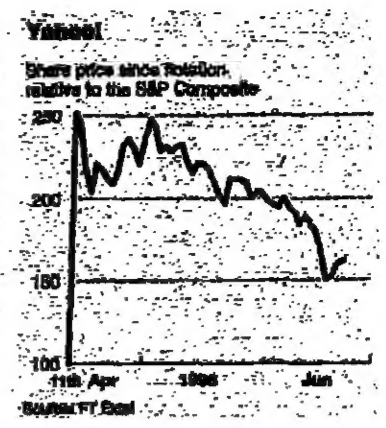
Few Internet publishers, of course, make money yet. Although advertising revenue is growing exponentially, it is still expected to be less than $100m this year. Nevertheless, the race is on to attract "eyeballs". And those which are most successful are receiving enthusiastic thumbs-ups from Wall Street.

Online directories, which help people find their way around the Web, were the craze a few months back: Yahoo, the most popular, has a market capitalisation of nearly $600m – more than 400 times sales. Attention is now shifting to content providers: Wired, which owns a popular webzine as well as an Internet-oriented print-based magazine, is looking for a market capitalisation of up to $500m in its imminent float.

These valuations would be ridiculous if Wall Street were conferring them indiscriminately. In fact, a two-tier system is already developing. *Lycos and Excite, two of Yahoo's* rivals, have market capitalisations of only $140m and $100m respectively. Investors suspect that the leaders in each category – *online directories*, political comment, financial news and so forth – will secure the lion's share of the ad revenue, leaving others with only scraps.

How, though, does one become a leader? The answer is three-fold: branding, publicity and content. On branding, Yahoo's natty name and Wired's lurid graphics are clear hits. The new Microsoft webzine, dubbed Slate, does not score as highly.

On publicity, Slate does better. But, once the launch hype fades, what will matter more are referrals from popular Web sites. And to obtain these, a webzine increasingly has to offer something in return: money is fine; even better is the promise of shunting traffic back in the opposite direction. The emerging network of cross-references between popular sites is creating Webs within the Web. Such inner webs are the best hope for locking in value for the long-term on the Inter-



net. Latecomers may find they are left on the outside with little traffic coming their way.

Quality matters too. Yahoo, for example, is scrambling to sign up the best content providers. In doing so, it is trying to turn itself from a mere directory into a platform on which publishers display their wares. Favoured publishers will be given more prominent positions than others – reinforcing the notion of an inner Web.

Of course, Yahoo and its ilk will not be able to push poor content consistently or, indeed, deny electronic shelf-space to extremely popular brands. But, in marginal cases, those with the most attractive platforms could have considerable power to make or break content providers. There would, of course, be nothing *new in that: traditional media like TV* channels and newspapers have been doing the same for decades.

Chemicals

The masochists of the chemicals industry are at it again. Memories of the last downturn are only just fading and already a new round of capacity expansion is threatening prices and profits.

The biggest problem is in polyester, used in clothes, films, car bumpers and plastic bottles. For the past three years, demand has been rising by 10-15 per cent a year and this has attracted waves of new investment. Analysts now predict that worldwide capacity for PTA, one of the key intermediates, will increase by 70 per cent between 1995 and 1998. With demand levelling off, overcapacity could reach 50 per cent of global demand and prices have already started falling to reflect this. While polyester is worst affected, there is also growing concern about too much capacity in titanium dioxide, one of the main ingredients in paint, and in ethylene. Since ethylene is one *of the basic building* blocks for most chemicals, that could have repercussions up the product chain. With ethylene crackers coming on stream in the Far East, capacity *will* expand by about 45 per cent between now and 1998. The spot price has recently weakened by nearly 20 per cent.

Among the commodity *chemicals* companies, ICI looks particularly vulnerable since polyester and titanium dioxide account for perhaps a third of profits in a good year. But Hoechst, Eastman, Shell and Dow Chemical are all big producers of the PET resin that is made into plastic bottles, while BASF, DSM of the Netherlands and the large oil companies stand to suffer from an ethylene glut.

European power

At first sight, last week's decision by European energy ministers to open up Europe's electricity markets to competition looks a landmark. After six years of wrangling, large industrial users will finally be allowed to buy power from wherever they choose. The new freedom may only affect 22 per cent of consumption – growing to 32 per cent over six years – but even this, one might think, should be a useful step forward.

Unfortunately, the small print tells a different story. Thanks to plenty of *let-out* clauses, the new *directive* will not cause national giants such as France's Electricité de France to shake in their shoes. Most importantly, the directive will allow a country like France to force independent power companies to charge their industrial customers through the national supplier. Armed with this *information*, EDF would then be in a powerful position to undercut them – or, more likely, deter them from entering the market in the first place.

Fortunately, the very absurdity of such devices means they are unlikely to last very long. It is customers who suffer, and they can be a pretty vocal group. Take Germany, where industrial users have mounted powerful opposition to the country's high electricity prices. As a result, the government is pressing ahead with aggressive plans to crack the market open. Elsewhere in Europe – notably in Spain and Italy – competitive pressures are also growing.

Probably the best that can be said for this limp new directive is that it should stoke these forces. Even in France, if users know they should have access to competing suppliers and do not get it, they will start asking awkward questions.

Convertible bonds boom

Continued from Page 1

group and Hammerson, the UK property company.

Last week, the convertible-bond market took on a new dimension when the Italian government became the first Group-of-Seven nation to use it as a way to privatise state assets – in this case, its 34.38 per cent stake in Ina, the insurance company.

The poor performance of Ina's shares since the company was privatised in 1994 prevented the government from selling the shares through a straightforward equity offering. By opting for an exchangeable bond offering, the government disposed of its residual stake in Ina without hurting the share price.

Indeed, the decision prompted a rise in Ina's shares last week because it rid the market of an overhang of Ina stock.

Bankers believe that the warm reception given to the Ina offering will encourage governments in a similar predicament to tap the market.

Tibet rift

Continued from Page 1

because of Mr Kohl's efforts, Sino-German relations would perhaps not be as badly damaged as the strongly worded Chinese statement suggested.

However, there were signs of further political repercussions from the Bundestag vote when a spokesman for Mr Roman Herzog, Germany's president, said that a planned visit to China later in the year was now "up in the air".

UK, Germany block financing for EU transport networks

By Lionel Barber and Robert Graham in Florence

The European Union's showcase transport networks face indefinite delay after the UK and Germany blocked extra financing needed to launch the infrastructure projects.

The deadlock over the trans-European networks at the end of the EU summit in Florence is a setback for Mr Jacques Santer, president of the European Commission. He had hoped to use the launch of the networks as a symbol for the EU's commitment to the region's 18m unemployed and to bolster competitiveness in Europe.

The outgoing Italian presidency had also pushed employment to the top of the agenda of the two-day summit, which ended on Saturday, but Germany's view that job creation was best tackled in a national context was widely shared.

Mr José María Aznar, the new rightwing Spanish prime minister, said: "Public administrations should not be used as the prime vehicle for job creation."

The Commission request for an additional Ecu1.2bn ($1.47bn) to bridge the financing gap for the networks was a central plank in Mr Santer's proposed "pact of confidence" between employers, trade unionists and governments.

Although Mr Santer did not accept that his pact had failed to get off the ground, he admitted he was "disappointed" at the failure to win support for financing the networks, which include high-speed railways and motorways.

The UK and Germany said the delay in launching the networks was due to technical difficulties such as lack of compatible standards or insufficient confidence among private investors.

In spite of the disagreements, EU leaders said the summit had achieved positive results.

It defused the long-running row between Britain and the EU over the ban on British beef exports and paved the way for detailed work on the inter-governmental conference (IGC) on the future of Europe under the incoming Irish presidency. A draft treaty should be ready by the end of the year.

Relief among EU leaders that a formula had been found that persuaded Britain to end non-co-operation following the ban on British beef was almost palpable.

But it was made clear to Mr John Major, the UK prime minister, that there were no guarantees of an early lifting of the ban. This had to depend on solid advice from veterinary and health experts.

The end of British blocking tactics opened the way for a deal on the long-stalled Europol police intelligence agency, which pools data on drug trafficking and organised crime.

EU leaders reaffirmed their determination to meet the timetable for the launch of a single currency on January 1 1999.

Uneasy ceasefire, Page 15

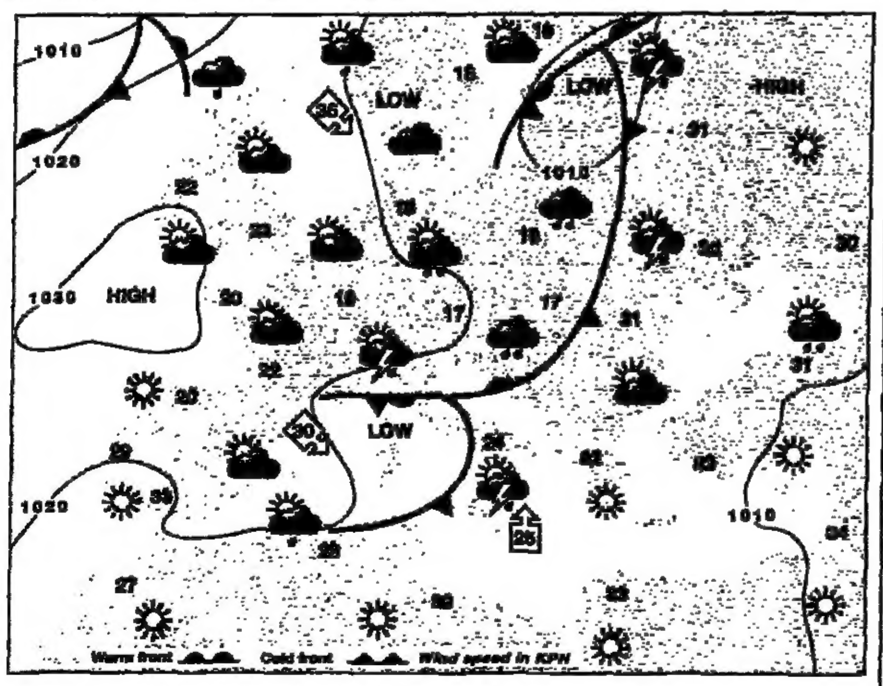
FT WEATHER GUIDE

Europe today

The Netherlands and Belgium will be mainly cloudy and cool with north-westerly winds. Other North Sea countries will be partly cloudy and dry. North-western Scotland and central Ireland will be cloudy with patches of drizzle. Most of France, Spain and Portugal will be sunny but it will stay rather cloudy on higher ground. Scattered thunder storms will develop from the French Riviera into western Italy, Sicily and Tunisia. More rain and thunder showers will accompany a cold front which will stall from the Balkans to western Russia. Ahead of this front, Greece and Turkey will have tropical conditions.

Five-day forecast

A surge of warm air will result in fair and much warmer conditions over most of western Europe. *The UK will become rather* unsettled at times. Tropical warmth will persist over south-eastern Europe. Active thunder storms will occur from Croatia into *south-western* Russia along a boundary of cool air.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum Celsius															
			Beijing	shower	33	Caracas	fair	30	Faro	sun	27	Madrid	sun	27	Rangoon	rain	28
			Belfast	cloudy	21	Cardiff	cloudy	23	Frankfurt	fair	21	Majorca	fair	24	Reykjavik	rain	14
Abu Dhabi	sun	38	Belgrade	fair	21	Casablanca	fair	24	Geneva	cloudy	17	Malta	thund	28	Rio	fair	26
Accra	shower	30	Berlin	drizzl	20	Chicago	fair	28	Gibraltar	sun	24	Manchester	fair	22	Rome	thund	24
Algiers	fair	27	Bermuda	fair	26	Cologne	fair	20	Glasgow	fair	22	Manila	shower	36	S. Frsco	fair	19
Amsterdam	cloudy	17	Bogota	fair	18	Dakar	sun	29	Hamburg	cloudy	18	Melbourne	shower	15	Seoul	rain	27
Athens	sun	32	Bombay	rain	30	Dallas	fair	34	Helsinki	cloudy	20	Mexico City	fair	24	Singapore	fair	33
Atlanta	sun	37	Brussels	cloudy	18	Delhi	shower	29	Hong Kong	rain	28	Miami	thund	33	Stockholm	cloudy	18
B. Aires	fair	15	Budapest	fair	19	Dubai	sun	38	Honolulu	fair	31	Milan	thund	18	Strasbourg	cloudy	18
B.ham	fair	23	C.hagen	cloudy	19	Dublin	cloudy	21	Istanbul	sun	30	Montreal	shower	26	Sydney	fair	17
Bangkok	shower	38	Cairo	sun	34	Dubrovnik	thund	25	Jakarta	fair	32	Moscow	thund	29	Tangier	sun	29
Barcelona	fair	22	Cape Town	shower	15	Edinburgh	fair	21	Jersey	fair	20	Munich	shower	16	Tel Aviv	sun	32
									Karachi	fair	35	Nairobi	fair	24	Tokyo	fair	27
									Kuwait	sun	43	Naples	thund	23	Toronto	fair	24
									L. Angeles	cloudy	23	Nassau	fair	32	Vancouver	shower	17
									Las Palmas	fair	26	New York	fair	31	Venice	cloudy	22
									Lima	cloudy	17	Nice	thund	24	Vienna	drizzl	18
									Lisbon	sun	29	Nicosia	sun	35	Warsaw	fair	15
									London	fair	23	Oslo	cloudy	19	Washington	fair	34
									Lux.bourg	fair	19	Paris	fair	19	Wellington	rain	13
									Lyon	fair	19	Perth	cloudy	18	Winnipeg	fair	21
									Madeira	fair	23	Prague	rain	16	Zurich	shower	14